

September 10, 2008

HONORABLE MAYOR AND CITY COUNCIL:

I am pleased to present the *2008-2009 Adopted Operating Budget* for the City of San Jose, the fiscal plan for San Jose that closed a \$29.6 million gap in the General Fund, continued to address the City Council's three year priorities, and maintained the strong conservative fiscal approach that has earned San José the highest bond rating of any large city in California.

The *2008-2009 Adopted Operating Budget* contains the modest addition of resources to address some of the City's critical service and infrastructure needs. Additional resources were allocated to add new police officers, support Green Vision initiatives, staff new park and library facilities, as well as enhance economic development efforts. However, San José continues to face significant and enduring long-term fiscal challenges that necessitated significant reductions. These included reduced administrative services, library hours, and maintenance levels; various funding shifts; and increased fees. Since the worst of the downturn began seven years ago, the City has eliminated approximately 470 positions and reduced the General Fund budget by more than \$360 million. The City has worked to minimize the direct impact to customers through belt-tightening, asking the organization to do more with less, and strong professional management. This task becomes more difficult with each successive year, and this year's actions will be felt more directly by our residents and businesses.

The current fiscal environment presented a challenge in developing a balanced 2008-2009 Adopted Budget. The slowing local economy, which continues to contribute to lower revenue growth in several key areas, is reflective of the state of the larger national economy. While economists continue to argue over whether we are currently suffering a national recession, it is clear that locally the slow recovery from earlier in the decade has leveled off. Even under the best of the scenarios, only weak growth is projected in the City's economically sensitive revenues for 2008-2009, driven by the declining housing market, faltering financial sectors, and rising energy costs. To date, the local economy has fared better than California and the nation as a whole based on the strength of the local businesses and the types of industries located here. However, this region is not immune to the larger economic influences.

In this environment, growth in the City's largest revenue sources, Sales Tax and Property Tax, is expected to be much lower than in recent years. The revenue estimates contained in the Adopted Budget should be attainable if the economy does not get appreciably worse. Should the downturn

2008–2009 ADOPTED BUDGET MESSAGE

prove to be more severe, the \$10 million Economic Uncertainty Reserve is available and could serve as a safety valve until any necessary re-calibration between revenues and expenses occurs.

In recognition of the difficult financial challenges facing the City, elimination of the structural deficit was established last year as one of the City's 3-year goals. This Adopted Budget makes progress in this regard by closing 86% of this year's General Fund deficit with ongoing dollars, thus reducing the negative impact on future budget years by minimizing the amount of one-time money used to address ongoing needs. In addition to the budget actions taken in the 2008-2009 Adopted Budget, additional reductions are highlighted in this message that could be used by the City Council in the future to address any State budget balancing impacts on the City, or other unforeseen actions such as higher than anticipated compensation increases resulting from ongoing negotiations with City labor groups.

BUDGET PROCESS

Despite the ongoing fiscal challenges, the adjustments approved in the *2008-2009 Adopted Operating Budget* focused on City Council priorities, directing resources toward essential services such as public safety, basic infrastructure requirements, economic development opportunities, and maintaining the City's strong commitment to neighborhoods.

Changes to increase transparency and openness that were initiated by the Mayor and City Council last year have now become part of the annual budgeting effort. Development of this Adopted Budget began in January, with a citywide *Budget Prioritization Survey* and the *Neighborhood Budget Priority Setting Session*. In February, the City Council and City's Senior Staff held a *Priority Setting Session*. In March, the City Council approved the *Mayor's March Budget Message* providing direction to the Administration regarding formulation of this *Adopted Operating Budget*. Community meetings to discuss the budget were held in all ten Council districts during April and May, and the City Council held eight Budget Study Sessions in early May. Finally, there were two public hearings (May 13 and June 16th) before final approval of the *2008-2009 Adopted Operating Budget*.

Structural Deficit

Adding to the complexity of the current year effort, however, is a parallel initiative designed to address the City's larger General Fund structural deficit, which is broader than the annual General Fund shortfall. The General Fund structural deficit, projected at \$137 million when the 2009-2013 Forecast was released, included the following three components: 1) the \$75 million shortfall projected over the next four years contained in the most recent *Five-Year Forecast*; \$40.2 million on the City's list of *Unmet/Deferred Infrastructure and Maintenance Needs*; and, 3) the unfunded costs for *General Fund Post-Employment Benefits* which are currently projected at \$21.6 million.

While the focus of the *2008-2009 Adopted Operating Budget* is the revenue and expenditures for the coming year, all of the actions contained in this document were formulated against the looming backdrop of the structural deficit. Even before the Adopted Budget was finalized, a Stakeholder Group directed by the City Council to develop advantages and concerns for a Three-Year General Fund Structural Deficit Elimination Plan had begun a series of public meetings.

2008–2009 ADOPTED BUDGET MESSAGE

BUDGET PROCESS (CONT'D.)

Structural Deficit (Cont'd.)

The Mayor made elimination of the structural deficit a top priority for the organization with his March 2007 Budget Message. To launch this effort, the City contracted with Management Partners, a consulting firm specializing in assisting with local government problem solving. Management Partners conducted extensive research and outreach, developed a comprehensive list of more than 300 potential strategies to attack this problem and vetted those strategies with a diverse group of stakeholders. The *City Manager General Fund Structural Deficit Task Force*, working with Management Partners, then reviewed and prioritized the strategies, narrowing the list to the top 21 viable possibilities. These were further reviewed and evaluated by the Mayor's Budget Shortfall Advisory Group (BSAG), whose recommendations were then reviewed and approved by the City Council in February 2008. These recommendations set out an aggressive schedule for next steps, including the establishment of a new stakeholder outreach process to identify advantage and concerns for these and other strategies that might be developed over the April through September 2008 time period.

The BSAG recommendations also directed the City Manager to identify and return to the City Council with time-sensitive proposals which should be moved forward quickly. As part of the 2008-2009 budget process, the City Council approved Manager's Budget Addendum (MBA) #6, Three-Year Structural Budget Deficit Elimination Plan – Top Priority Strategies, which identified a series of General Fund budget strategies that had time urgency and/or provided an immediate opportunity to implement along with recommended actions to move these items forward. These actions included the analysis of a number of ballot measures to be considered for the November 2008 election.

The budget actions approved as part of the 2008-2009 Adopted Budget reduced the General Fund structural deficit by \$21 million from \$137 million to \$116 million as shown in the chart below:

General Fund Structural Budget Deficit
(\$ in millions)

Structural Deficit Component	Total Deficit	2008-2009 Solutions	Remaining Deficit
Projected Shortfall (Feb. 2008 Five-Year Forecast)	(\$ 75.1)	\$ 19.3	(\$ 55.8)
Unmet/Deferred Infrastructure and Maintenance Needs	(\$ 40.2)		(\$ 40.2)
GASB 43/45 (General Fund Retirement Benefits)	(\$ 21.6)	\$ 1.5	(\$ 20.1)
TOTAL	(\$ 136.9)	\$ 20.8	(\$ 116.1)

A combination of strategies made up the \$21 million reduction to the General Fund structural deficit. These strategies included the following: cost savings (service delivery model changes and

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BUDGET PROCESS (CONT'D.)

Structural Deficit (Cont'd.)

expenditure controls) of \$9.9 million (48%); revenue strategies of \$5.5 million (26%); and service reductions of \$5.4 million (26%). The next installment in this effort will be the General Fund Three-Year Structural Budget Deficit Elimination Plan that is scheduled to be released by November 2008.

Public Engagement

This year's *Budget Prioritization Survey* gathered responses from 1,000 residents in English, Spanish and Vietnamese. The results were very similar to last year's survey – a majority of residents believe the City is currently spending the right amount of money in key service areas. If additional money was available, those surveyed would prefer that new dollars be targeted for police services and street maintenance and repairs. When asked to rank three mechanisms for solving the structural deficit, changing the way the City delivers services was preferred by the vast majority (67%) over either reducing services (10%) or raising revenues (16%). The day-long *Neighborhood Budget Priority Session* identified neighborhood priorities for any unallocated funding that might be available, and also prioritized strategies for solving the structural deficit. At the full day *Council Priority Setting Study Session*, the City Council, Council Appointees and Senior Staff collectively evaluated and reaffirmed the five three-year priorities for the City and prioritized where unallocated funds General Fund and Redevelopment dollars should be targeted. These priorities were used in developing the 2008-2009 Adopted Budget. A number of actions in this budget support and advance the five goals and are identified in Table 1 below.

ADOPTED ACTIONS FOR CITY PRIORITIES

(Table 1)

3-Year Goal	Adopted Budget Actions
Regain our status as the safest big city in America	<ul style="list-style-type: none">• 25 new Police Officers for property crimes, community policing and traffic calming activities. (\$1,629,000, \$2.9 million ongoing)• Sustained current patrol and investigative functions for gang and violent crimes— existing staffing levels maintained• San José BEST funding increase of \$1 million —annual investment now \$4 million.• Summer Safety Initiative Pilot (\$243,000), Community Responsibility Council and Transition Center (\$150,000), and Mayor's Youth Gang Task Force Summit (\$25,000) to complement BEST activities.• South San José Police Substation and new fire facilities under construction.• Essential emergency services — fire suppression and emergency medical services — maintained.

2008–2009 ADOPTED BUDGET MESSAGE

BUDGET PROCESS (CONT'D.)

ADOPTED ACTIONS FOR CITY PRIORITIES

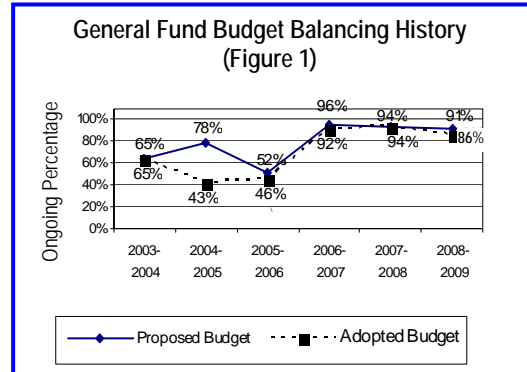
(Table 1)

3-Year Goal	Adopted Budget Actions
Eliminate the structural budget deficit	<ul style="list-style-type: none"> • Down payment of \$1.9 million (ongoing) to begin addressing unfunded liability associated with post-employment benefits. • One-time funding for retiree health care studies. (\$150,000) • Funding for Three-Year General Fund Structural Deficit Elimination Plan, outreach, and additional analysis. (\$175,000) • Service Delivery Optimization/Review – funding to evaluate alternative service delivery options. (\$350,000) • Revenue Strategies — Business Field Enforcement Pilot Program to identify non-compliant businesses. (\$500,000) • Addition of a Business Tax Administration Fee. (\$1.4 million) • Wellness Program to reduce future health care benefits premium. (\$314,000).
Reduce deferred maintenance and the infrastructure backlog and develop a strategy to improve the infrastructure	<ul style="list-style-type: none"> • Deferred maintenance and infrastructure backlog funds (one-time) for building facilities, technology, and transportation infrastructure. (\$5 million) • Funding for new transportation capital assets. (\$312,000) • Pavement maintenance funding (Prop 1B and 42) from the State of California. • Significant utility infrastructure investments in the Water Pollution Control Plant, Municipal Water, Storm Sewer and Sanitary Sewer Systems supported by approved utility rate increases.
Increase economic vitality	<ul style="list-style-type: none"> • San José Green Vision resources to promote San José as a leader in clean environmental innovation. (\$1.2 million General Fund/\$7.1 million all funds) • Economic Development Officer for San José Industrial Development and City's Retail Strategy. (\$119,000) • Creation of a Downtown Coordinator position in the City Manager's Office to facilitate downtown issues. (\$109,000) • Development Fee Programs service levels maintained by balancing fee increases, prudent use of fee reserves, and position eliminations (Building, Fire, Planning and Public Works Fee Programs).
Provide full funding for parks, pools, community centers and libraries, including maintenance, operation and development	<ul style="list-style-type: none"> • New parks and community facilities resources (e.g. Mayfair and Roosevelt Community Centers). (\$1.6 million) • Staffing for three new branch libraries — Joyce Ellington, Pearl, and Willow Glen, offset by the closing of one library (Educational Park) for renovation. (\$861,000) • Ongoing funds to staff Northside Community Center. (\$380,000) • Continuation of library and community center staffing and operations during peak usage demand.

2008–2009 ADOPTED BUDGET MESSAGE

BALANCING STRATEGIES

The 2008-2009 Adopted Operating Budget was prepared consistent with the Budget Balancing Strategy Guidelines approved by the Council as part of the *Mayor's March Budget Message*. As noted above, 86% of the General Fund budget shortfall was eliminated in this Adopted Budget with ongoing dollars, a slight drop from the 91% presented in the 2008-2009 Proposed Budget. While every one-time dollars used to close the deficit adds another dollar to next year's deficit, we also know that some actions, no matter how fiscally sound, may be unacceptable to our residents and businesses. This budget represented our best professional judgment to balance these two competing needs. Adherence to the policy of funding ongoing programs and services with only ongoing dollars is an important goal. However, in the context of a \$1 billion General Fund Operating Budget, and in light of the severity of the reductions that would have been required to close the remaining gap, it was our belief that the use of \$4.1 million in one-time dollars (0.4% of the General Fund Operating Budget) to close the current deficit still met the test of sound fiscal principles. As Figure 1 shows, this year's actions are generally consistent with the ongoing balancing actions taken in the two most recent years.



In addition to the actions necessary to balance the 2008-2009 budget, a set of Tier 2 proposals was developed. These proposals were initially brought forward in the 2008-2009 Proposed Budget to provide options to balance the budget with 100% ongoing solutions, to address potential State budget actions, and/or to address higher than anticipated employee compensation costs resulting from contract negotiations. While these proposals were not used in the Adopted Budget to balance the budget with 100% ongoing solutions, they remain available for future use to address budget shortfalls that may result from the final adoption of the State budget or higher employee compensation costs in 2008-2009.

As of the beginning of the third month of the 2008-2009 fiscal year, the State has yet to adopt a budget. Based on various proposals under discussion, the current potential General Fund impact on San José is expected to range from \$6.9 million to \$22 million in the General Fund. A plan to rebalance the budget will be brought forward for City Council consideration, if necessary, based on the final adopted State budget.

The Tier Two Options table below displays a short description of each contingency reduction proposal, along with the 2008-2009 and ongoing savings associated with the proposal. As is apparent, the proposals in this list would severely impact many of the City's core services. The 2008-2009 cost savings shown below assumed implementation in August 2008. If these proposals are used, the cost figures would have to be adjusted based on the actual implementation date.

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BALANCING STRATEGIES (CONT'D.)

TIER TWO OPTIONS (Table 2)			
Additional Program Reductions	FTE	2008-2009	Ongoing
Human Resources Recruitment Staffing By rescinding the adopted addition of a Principal Office Specialist in the Employment Division of Human Resources, many advancements made in the past year to streamline the hiring process would be reversed. Loss of the Principal Office Specialist would transfer 50% of the data entry workload to the professional staff, an inefficient use of their time. The hiring process would be increased by at least 2 weeks and would reduce positions in Employment to an all-time low, not seen since 1999.	(1.00)	(76,000)	(78,000)
Transportation Events Coordinator Eliminating this position would negatively impact coordination and management of over 450 events in and around the downtown area each year. The position is responsible for developing transportation and parking management plans for these events. Much of the workload cannot be absorbed by other staff and since the goal for these events is to stimulate economic development and interest in the downtown, the City has not charged for these services and there is no plan currently to begin charging a fee for these services.	(1.00)	(110,000)	(120,000)
Living/Prevailing Wage Program This would be a 50% reduction of the Labor Compliance staff (1 of 2) dedicated to monitoring service and maintenance contracts. With only one position responsible for monitoring these contracts, the option in 2008-2009 would be to either concentrate exclusively on informing contractors of their responsibilities or concentrate exclusively on enforcement of a few of the City's largest contracts.	(1.00)	(57,000)	(114,000)
Street Landscape Maintenance Elimination of three additional positions would result in each of the remaining positions being responsible for 14 acres of landscape, up from the current 8.3 acres per maintenance worker. The industry standard per maintenance worker is 2.5 acres. As a result, the percent of landscapes in good or better condition would drop from 40% in the current year to 35% by the end of 2008-2009.	(3.00)	(216,000)	(232,000)
Street Light Shut Off This proposal shuts off approximately 10% of streetlights (approximately 6,000) along arterials and in industrial areas with high ambient lighting levels to generate savings and reduce electricity consumption. Residential streetlights would not be impacted. The Transportation Department would coordinate with Police and Economic Development to minimize safety and business impacts. The percentage of operational streetlights would decrease from 98% to 85%. It is anticipated that streetlight complaints would increase.		(422,000)	(459,000)

2008–2009 ADOPTED BUDGET MESSAGE

BALANCING STRATEGIES (CONT'D.)

TIER TWO OPTIONS (Table 2)			
Additional Program Reductions	FTE	2008-2009	Ongoing
Community Facilities Re-Use Elimination of 9.0 Recreation Leader PT positions beginning in 2009-2010 would leave 2.0 staff to oversee use of the 17 existing re-use sites by community based service providers. The remaining two positions would respond to facility issues, manage contracts and conduct routine site evaluation to ensure compliance with agreements at all 17 locations. With the Council's recent approval of the new reuse policy, implementation will require the existing positions. Therefore under this proposal, these positions would be converted to one-time funding in 2008-2009 to allow the implementation to continue. However, if a service provider cannot be located during this period for any site, that site would close.	(9.00)	0	(303,000)
Community Centers Closure This action would eliminate 7.5 positions and close operations one day per week at 10 multi-service community centers or "hubs" and 17 satellite centers, providing family, senior and youth programming. The proposal would decrease operations from the current 5.5 day per week model, to a 4.5 day per week operation, with the majority of the closures occurring on Mondays or Fridays.	(7.50)	(252,000)	(306,000)
Police Traffic Enforcement Team (1 of 7) The elimination of one of seven Traffic Enforcement teams (1 Sergeant and 4 Officers) as of January 2009 would impact response and investigation of non-fatal traffic accidents and reduce neighborhood traffic calming efforts.	(5.00)	(400,000)	(759,000)
Mayor, City Council, Appointees, CBOs Consistent with City Council direction, any reductions in non-public safety city service areas would automatically increase the reduction for the Mayor, City Council, Appointees, and CBOs. The dollars in this category reflect the new higher average reduction that would result from the reductions listed above for non-public safety city service areas. The reductions imposed would increase from 6% to 6.9%.	TBD	(356,000)	(354,000)
Total	(27.50)	\$ (1,889,000)	\$(2,725,000)

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BALANCING STRATEGIES (CONT'D.)

Should the \$2.7 million in contingency actions above be insufficient to address budget balancing needs that may arise, the Administration would need to develop a third set of actions beyond those included in the Adopted Budget and those identified in Tier Two. Because the *2008-2009 Adopted Operating Budget* and previous year reductions have relied more heavily on the non-public safety CSAs to address the budget shortfall, there are few opportunities for further reductions in these areas without severe impacts on service delivery and organizational health. Thus, a preliminary analysis suggests additional reductions would likely impact every CSA, including Public Safety. These reductions could potentially include: 1) further reductions in library and community center hours; 2) rescinding adopted new investments included in this document such as for Economic Development to support retail and facilitate industrial project development, and new Police Officers in the General Fund; 3) the complete elimination of the Park Ranger Program, Crossing Guard Services, and/or Landscape Maintenance; and/or, 4) significant reductions to Regional Park Recreational Programs and other public safety services including School Liaison Sworn Staffing and Neighborhood Watch. We hope ultimately that we do not have to implement any additional reductions, as implementing almost any of these proposals would substantially damage community service levels in key core service areas.

Workforce Impacts

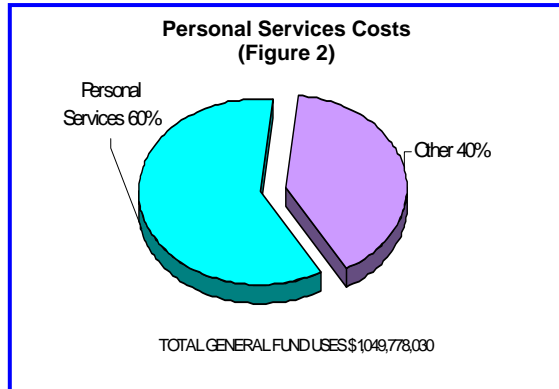
Our ability to sustain services throughout the past seven years has rested on a foundation of conservative fiscal policies adhered to by the City Council and the organization. We have continued the freeze in hiring for non-critical positions, first imposed in 2001 with the desired effect of reducing expenditures and preserving vacancies to avoid layoffs. The number of City employees remains down from a high of nearly 7,500. The 6,985 positions included in the 2008-2009 Adopted Budget, represent a net decrease of 7 positions from last year. While some new positions are added in this Adopted Budget, a number of employees are negatively impacted as well. Of the 146 positions eliminated in this Adopted Budget, some 40 were filled positions. All of the individuals potentially impacted by the actions in this budget were notified and have been redeployed with no resulting layoffs. It is a mark of pride and successful management that over the past seven years, during which time approximately 470 positions have been eliminated, not one full-time employee has left the City involuntarily. Instead, we have been able to move these employees into other needed positions that had been held vacant. This has not occurred, however, without disruption and retraining, and is a source of organizational instability.

There are some who have argued that this approach has made the task of eliminating the structural deficit harder. These critics say that the workforce does not fully understand the severity of our present fiscal situation, because through measured reductions we have spared them from more scarring impacts. Solving our structural deficit will continue to require sacrifice on all of our parts, and our employees would no doubt be more prepared for sacrifices had they seen some of their coworkers leave the organization involuntarily. However, the City has a well-earned reputation for treating its employees with compassion and respect. We will continue engaging with our employees and bargaining groups to ensure that they fully understand the severity of our fiscal situation and that they are partners as we seek solutions to our long-term problems.

2008–2009 ADOPTED BUDGET MESSAGE

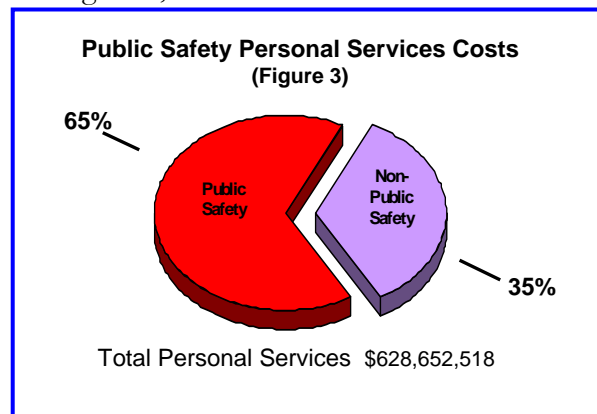
BALANCING STRATEGIES (CONT'D.)

Workforce Impacts (Cont'd.)



As a municipal organization, the City's primary function is to deliver services to our community, which takes people. As a result, as has been noted before, the largest portion by far of General Fund dollars goes to pay for the salaries and benefits of the City employees who deliver those services. As shown in the Personal Services Costs chart (Figure 2), approximately 60% of General Fund expenditures are tied directly to personnel costs, and fully 65% of these personnel costs (Figure 3) are in Public Safety, a high priority area. It is worth noting, that our two largest revenue sources, (Sales Tax and Property Tax) pay for only

82% of the City's General Fund Public Safety costs. Together, these two charts demonstrate the dilemma facing San José. The cost of simply continuing the current level of services pushes higher each year, driven partially by cost of living increases, but more by the cost of providing health and retirement benefits. And as had been noted in previous messages, one-third of our employees will be eligible to retire in the next five years. As the City competes to attract new talent additional upward pressure on the budget will be felt.



Even in the worst of times, as priorities shift and new needs are identified, modest additions are required. This year is no different. Approximately 139 new positions were approved for addition in this budget from the Forecast Base Budget level – 53 of them previously committed through Council action including approval of the Mayor's March message. The targeted additions are concentrated in several key areas, such as:

- **Public Safety**, with the addition of 25 new Police Officers, per direction in the Mayor's March and June Budget Messages, to address identified needs including property crimes, traffic calming, and community policing;
- **Neighborhood Services**, with 45 positions to provide services for new libraries and community centers, and meet other Parks maintenance requirements, and staffing at the Northside Community Center.
- **Airport**, with 11 positions to enhance terminal operations and aviation safety programs.
- **Finance**, with 5.5 positions for enhanced monitoring and collections.
- **Economic Development**, with 3 positions to support the San José Retail Strategy; industrial development; coordination efforts downtown where we need to manage and support the changing environment as our core evolves into a new neighborhood; and support and oversight of non-profits to ensure they are stable in providing services and better positioned to operate in a fiscally sound way that does not require additional support from the City.

2008–2009 ADOPTED BUDGET MESSAGE

BALANCING STRATEGIES (CONT'D.)

Workforce Impacts (Cont'd.)

- **Environmental Services**, with 15 positions to support programs such as the Treatment Plant Capital Project delivery, the *Fats, Oils, and Grease* program expansion, the Construction and Demolition Recycling Program and "Zero Waste" - Organic Materials Recovery.

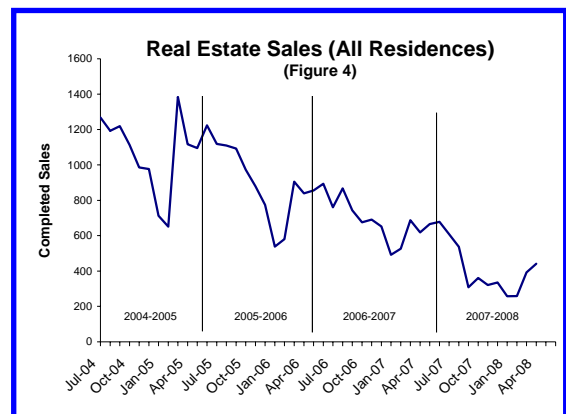
ECONOMIC PERFORMANCE

Each year, one of the most significant challenges facing the Administration in formulating a budget is projecting the condition of the local economy and the associated impact on City revenues. For the 2008-2009 Adopted Budget, the revenue estimates have been built on an assumption of minimal economic growth. With continuing debates about whether the economy is or will be in a recession, the overall economic outlook is not positive. The current slowdown is expected to dampen growth in the City's largest General Fund revenue sources, Sales Tax and Property Tax, in the upcoming year.

National Outlook

The national economy is expected to be even weaker in 2008 than it was in 2007, which was a year characterized by a spiraling drop in economic performance. The housing crisis and the severe problems in the credit, housing and energy markets are expected to continue to impact economic performance. While the March 2008 UCLA Anderson Forecast continues to hold onto its no recession prediction, it points to a very weak economy: "Although we are officially not calling for a recession, it will not take much to put the U.S. economy into a recession. Should that occur, a two quarter decline in real GDP on the order of 1% a quarter would trigger absolute job declines this year and an unemployment rate of 6% by the end of the year. After all we are in a perfect storm consisting of the worst credit crunch in decades, falling housing prices, and \$100 oil. Indeed, if history and global experience is any guide, the hangover from the mid-decade credit boom could last for quite some time."

Not surprisingly, Consumer Confidence also continues to fall. On a national level, the Conference Board Consumer Confidence Index, which has declined in May, fell further in June 2008. Lynn Franco, Director of The Conference Board Consumer Research Center stated: "This month's Consumer Confidence Index is the fifth lowest reading ever. Consumers' assessment of present-day conditions continues to grow more negative and suggests the economy remains stuck in low gear. Looking ahead, consumers' economic outlook is so bleak that the Expectations Index has reached a new all-time low. Perhaps the silver lining to this otherwise dismal report is that Consumer Confidence may be nearing the bottom."



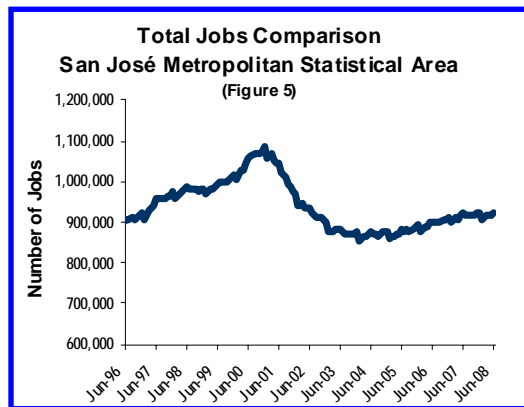
2008–2009 ADOPTED BUDGET MESSAGE

ECONOMIC PERFORMANCE (CONT'D.)

City of San José Outlook (Cont'd.)

Consistent with the national outlook, the severe slowdown in the housing market is expected to continue to negatively impact this region. Although it is still anticipated that the local economy will fare slightly better than the national economy, this region will not be immune to the many negative factors pulling the economy in a downward direction. As shown in the Figure 4, the number of housing sales in San José has dropped significantly in the last year. The slowdown in the housing market dominates current conditions and is expected to directly impact a number of the City's revenue sources, including Property Tax and Construction and Conveyance Taxes. The slowdown in this area can also be expected to indirectly impact Sales Tax collections with the downward spending in construction materials and the reduction of consumer spending as the "wealth effect" associated with housing appreciation diminishes.

The lack of growth in employment and increases in the unemployment rate are also indicators of a slowing economy. Job growth, while still slightly positive, lags behind the prior year. The employment figure for June 2008 of 923,400 was almost identical to the June 2007 figure of 922,400 jobs. This performance contrasts with the recent trends for modest job growth, including a 2.1% increase experienced in 2006-2007. The number of jobs in this region also remains well below the peak of 1.1 million jobs in December 2000.



The unemployment rate for the San José area of 6.1% in June 2008 was above both the May 2008 figure of 5.6% and the June 2007 level of 4.8%. The June 2008 unemployment rate for San José was also above the unadjusted rate for the nation of 5.7% but was below the unadjusted figure for the State of 7.0%.

Staff will continue to carefully monitor employment levels, unemployment rates, the performance of the local housing market, and Sales Tax receipts as indicators of the condition of the local economy. The growth rates for revenue categories directly tied to property sales have been adjusted downwards for 2008-2009, but are still positive. The remaining economically sensitive revenues are also built on the assumption that the slowing economy will dampen growth in 2008-2009, but not result in actual declines.

While weak economic growth was anticipated in formulating 2008-2009 revenue estimates, it is important to keep in mind that only about half of the City's revenue categories are tied directly to the performance of the economy. The remaining areas, while impacted by overall economic performance, are driven by other factors. For instance, growth in the Utility Tax and Franchise Fee categories is typically more heavily impacted by rate changes than economic growth. Collections from local, state and federal agencies are driven by the grant and reimbursement funding available. Because these revenue sources do not track directly with the performance of the economy, they act as a buffer during an economic slowdown, easing the impact of a drop in economically sensitive

2008–2009 ADOPTED BUDGET MESSAGE

ECONOMIC PERFORMANCE (CONT'D.)

City of San José Outlook (Cont'd.)

categories. Conversely, in times of economic strength, this can hold down the City's overall revenue growth.

BUDGET OVERVIEW

In the 2008-2009 Adopted Budget, the total net adopted funding is \$3.3 billion for all City funds (General, Special, and Capital). This is \$463.8 million or 12.4% below the 2007–2008 Adopted Budget (Table 3 below). This overall decline is primarily due to a substantial decrease in the Airport Capital Program and bond-funded programs as many of the previously budgeted projects are now complete or underway. The 6,985 positions included in the 2008-2009 Adopted Budget is relatively consistent with the 2007-2008 Adopted Budget level, with a net reduction of only 7 positions.

2008–2009 ADOPTED BUDGET — ALL FUNDS (Table 3)			
	2007–2008 Adopted	2008–2009 Adopted	% Change
General Fund	\$ 1,031,779,500	\$ 1,049,778,030	1.7%
Special Funds	1,759,589,935	1,652,998,498	(6.1%)
<Less: Operating Transfers>	(1,040,949,214)	(586,551,959)	(43.7%)
Net Operating Funds	\$ 1,750,420,221	\$ 2,116,224,569	20.9%
Capital Funds	\$ 2,004,105,214	\$ 1,193,672,000	(40.4%)
<Less: Capital Transfers>	(12,828,000)	(32,000,000)	149.5 %
Net Capital Funds	\$ 1,991,277,214	\$ 1,161,672,000	(41.9%)
Net Total	\$ 3,741,697,435	\$ 3,277,896,569	(12.4%)

Budget Balancing Strategies

Our earliest projections for 2008-2009 predicted a \$24.8 million shortfall in the General Fund (excluding the development fee program). In October, the City Council established a *2008-2009 Future Deficit Reserve* by setting aside \$7.3 million of year-end fund balances during the final reconciliation of the 2006-2007 Budget. In February, the Five-Year Forecast revealed a slightly lower projected shortfall of \$22.3 million. The slight improvement was the result of downward adjustments to the revenue estimates of \$10.5 million, reflecting the deteriorating economic environment, offset by improvements to the base expenditure estimates of \$13 million. Further refinement of revenue and expenditure projections explained in detail later in this document (Attachment A) resulted in a final General Fund shortfall in this Adopted Budget of \$23.4 million.

2008–2009 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Budget Balancing Strategies (Cont'd.)

The 2008-2009 shortfall increased to \$29.6 million once the development fee programs were included.

In preparing the 2008-2009 Adopted Operating Budget, the Administration was guided by a set of general budget balancing strategy guidelines contained in the City Manager's Budget Request and adopted by the Council in the Mayor's March Budget Message. This Adopted Budget also responded to the 47 directives contained in the Mayor's March Budget Message. A summary of the responses to these directives is provided in Attachment B to this message. A description of responses to the City Auditor's referrals is also included (Attachment C).

The 2008-2009 Adopted Operating Budget included some ongoing cost reductions, necessary fee increases, and the strategic use of reserves. There were also targeted additions to address City Council priorities. The table below shows the matrix of balancing strategies and the dollars associated with each action.

General Fund Budget Balancing Plan (Table 4)	
	In \$000s)
General Fund Shortfall	(23,360)
Development Fee Program Impact	(6,277)
TOTAL GENERAL FUND SHORTFALL	(29,637)
SOURCE OF FUNDS	
2008-2009 Future Deficit Reserve (one-time)	7,271
2007-2008 Fund Balance/Reserves	12,912
Transfers from Other Funds	3,961
Fee Increases/Activity Level Adjustments	6,070
Miscellaneous	3,990
<i>Total Change in Source of Funds</i>	<i>34,204</i>
USE OF FUNDS	
Staffing & Non-Personal/Equipment Reductions	(14,649)
Funding Shifts	(3,590)
Use of Reserves (Committed Additions)	(2,749)
Technology & Capital Infrastructure Maintenance	6,224
City Council Direction (Mayor's Message)	3,256
Neighborhood Services Activities	3,386
New Facilities Operations & Maintenance	2,285
Public Safety Activities	5,169
Economic Development Activities	1,297
Miscellaneous	3,938
<i>Total Change in Use of Funds</i>	<i>4,567</i>
Total Balancing Solutions	29,637

2008–2009 ADOPTED BUDGET MESSAGE

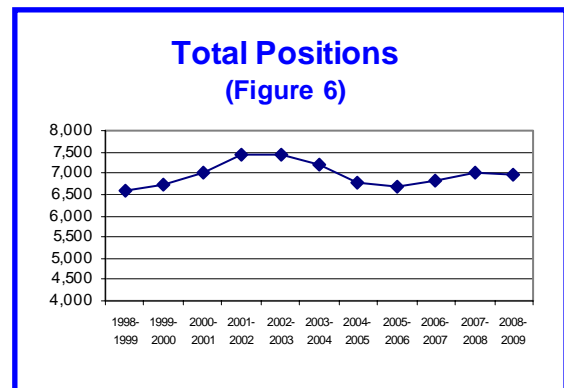
BUDGET OVERVIEW (CONT'D.)

Budget Balancing Strategies (Cont'd.)

As noted above and consistent with each of the previous six budget cycles, there are real service reductions and employee impacts in this budget. As shown in the table below, approved changes from the Forecast Base Budget level to the Adopted Budget result in the elimination of 84 positions and the addition of 140 positions, for a net increase of 56 positions. The net change from last year, however, is a reduction of 7 positions, as 63 positions were eliminated in the Forecast Base Budget, many of which were limit dated.

Changes in Position Count from 2007-2008 Adopted to 2008-2009 Adopted Budget (Table 5)	
Forecast Base Position Changes	(62.92)
Adopted Reductions	(83.78)
Adopted Additions	139.68
Total	(7.02)

Of the positions eliminated in the Adopted Budget, 5 full-time and 5 part-time employees faced redeployment or layoff. Staff was able to find a redeployment opportunity for these employees and no employees were laid off. As indicated earlier, the total number of positions fell to 6,985 in 2008-2009. As Figure 6 demonstrates, the total employee count remains roughly equivalent to the 2000-2001 employee count. In the intervening years, our City population has grown by 68,000, a 7% increase. Since 2002 when the harshest impact of the economic downturn hit the City budget, the net reduction of City positions totals 468, a decline of 6.7%.



Consistent with City Council direction, funding for community-based organizations was also reduced by 6%, an amount equal to the average reduction for all non-public safety city service areas, partially offset by a 3.75% cost-of-living adjustment, for a net impact of 2.25%.

City Service Areas

The following sections highlight the most significant actions approved for each of the City's six City Service Areas (CSA). A more detailed recitation of the changes for each CSA can be found in the detailed budget pages following this message.

Community and Economic Development

Like many other communities San José has experienced declining real estate values and development delays as a result of a weakening economy; however many of these losses have been less severe than

2008–2009 ADOPTED BUDGET MESSAGE

City Service Areas (Cont'd.)

Community and Economic Development (Cont'd.)

other regions of California. The growth in the innovative industries of clean technology, biotechnology, and nanotechnology and the completion of several retail projects have offset a portion of the region's job losses and mitigated some of the City's declining sales tax revenues. While other sectors of the local economy are holding steady, the impact of the home mortgage crisis has created a significant slowdown in the homebuyer market. Market-rate housing development has decreased in response, resulting in affordable housing having a larger percentage share of total residential development. In the current fiscal year there are, however, several successes worth noting: 1) increased retail presence from Costco, Whole Foods, and at two new shopping centers – San José Market Center and the Plant; 2) the growing clean technology cluster, including SolarTech's Center of Excellence; Underwriters Laboratory's largest solar testing and certification laboratory in the nation; Borgata Recycling; Bay Biodiesel; and solar companies Solopower, Stion, and the SVTC Photovoltaic Development Center which all moved into Edenvale; 3) the relocation of Critchfield into North San José; and 4) the expansion of BD Bioscience, eBay, and Cisco's Human Network Facility. These successes reflect staff's role in: 1) bringing key sites to the private sector decision makers that met their site selection criteria and were consistent with City land use policies; 2) eliminating their concerns regarding potential stumbling blocks to facilitate the land transactions; and, 3) assisting and facilitating the entitlement and permit processes.

As noted earlier, the Council-approved 3-year goals included a focus on increasing San José's economic vitality and generating additional City revenues, and the Adopted Budget recommends a number of strategies to augment key community and economic development initiatives, improve cost recovery levels of development fee programs, continue making measurable improvement in the permitting process, and minimize service level impacts.

Strengthen the City's economic base to generate revenue and create jobs – To facilitate the expansion and relocation of driving industry companies and retail businesses in San José, the addition of an additional Economic Development Officer position was approved. This position will help generate additional City revenues and create new jobs in San José by implementing the Retail Strategy and facilitating key projects underway in industrial areas, such as North San José. This budget also creates a position in the City Manager's Office to act as a liaison as we continue to transition our Downtown. Several policy changes and ordinances must be developed to facilitate the new residential community that is changing the culture of our Downtown to ensure that new and existing policies make Downtown a safe and vibrant center. Work will also focus on establishing a fair cost-sharing structure that responds to the 2007-2008 June Budget Message direction that the downtown entertainment businesses share in the cost of policing downtown activities. In addition, the Community and Economic Development CSA will expand its support for small businesses. Existing resources will be used to strengthen the BusinessOwnerSpace.com (BOS) network of 39 service providers that offer free services to entrepreneurs and small businesses. This funding will support language translation of key marketing and technical documents, development of Customer Service protocols, tools and capacity building of partner staff, as well as improvements to the BOS website and small business outreach efforts.

2008–2009 ADOPTED BUDGET MESSAGE

City Service Areas (Cont'd.)

Community and Economic Development (Cont'd.)

As directed in the Mayor's March message, the Administration included a significant investment to support San José's efforts to achieve the Green Vision goals and become a world center of clean technology innovation. The City Council approved \$900,000 in General Fund seed monies directed toward efforts that will have a significant return on investment, leverage outside resources, prepare the City for future investments, demonstrate cutting-edge technologies, or help engage residents and other stakeholders in achieving the goals. Key projects for 2008-2009 include energy efficiency initiatives for City facilities and low income families (projected payback period of two to three years), matching grants for the Department of Energy Solar America City Grant and State CalFire tree planting grants, training for staff to implement green building policies, and community engagement initiatives. In total, throughout this budget a Green Vision investment of \$7.1 million was approved for 2008-2009.

Facilitate the development of safe, healthy, attractive and vital communities – Community planning and development remains very active as the City works to update its General Plan and make measurable improvement in the permitting process. *Envision San José 2040* was formally launched in October 2007 and is well underway. This multi-year community-based process will result in a General Plan update that guides new development to appropriate locations, strengthens economic development opportunities, creates viable housing choices for all San José households, addresses quality of life issues through infrastructure and service standards, and establishes measurable performance standards for environmental, fiscal, and economic sustainability.

In addition, the Development Services Partners (Planning, Building, Public Works and Fire) have worked hard to make measurable improvements in the development process over the past year, and the second annual customer satisfaction survey clearly demonstrates progress. For instance, out of 34 service dimensions showing statistically significant changes, 31 were in a positive direction. Additionally, overall the level of customer satisfaction increased statistically – more customers were *very satisfied* with the performance on their project. Despite this progress, the City continues to face revenue shortfalls in the development-related fee programs due primarily to the substantial increases in personnel costs such as retirement and health benefits. To close the gap and maintain service levels, this Adopted Budget will use \$2 million in fee reserves, impose modest fee increases, and make a number of one-time and ongoing staffing adjustments. The adopted fee increases are for Building (10%), Fire (4%), Planning (7%), and Public Works (10%). The approved staff adjustments will decrease staffing by 16.69 positions in Building and 13.21 positions in Public Works; increase staffing by 3.2 positions in Fire and 4.19 positions in Planning; and permanently establish the Green Building Planner position.

Provide a diverse range of housing opportunities – The state-mandated General Plan Housing Element, which is the City's plan for delivering housing for all income ranges in our community, is on track to be completed in 2008. In addition, to expand San José's efforts to provide affordable housing and eliminate homelessness, this budget includes funding for three new staff positions using Housing funds to provide homeless services and improved management of increasing funding sources for Housing programs. The first position will provide emergency services to families made homeless due to a fire or other crisis, and work with the Office of Emergency Services to plan for interim housing for those made homeless by a regional disaster such as earthquake or flood. The second

2008–2009 ADOPTED BUDGET MESSAGE

City Service Areas (Cont'd.)

Community and Economic Development (Cont'd.)

position will oversee the City's homeless program activities and grant administration to ensure the City's continued participation in the regional effort to end chronic homelessness. The third position was approved to ensure the timely and accurate administration of the growing number of local, state and federal funding sources used in Housing programs. This new accounting position will monitor revenue and expenditures related to each source and track the resulting number of affordable housing being produced.

Provide a range of quality events, public artworks, and cultural opportunities – Public artworks, special events and festivals bring substantial visibility and economic impact to the City, and this budget contains actions that support these activities. To alleviate the General Fund budget deficit, several arts programs will now compete for Transient Occupancy Tax Fund funding, and funding for one staff position was shifted from the General Fund to the public art funding source in the Capital Improvement Program. In addition, the Small Wonders work plan received ongoing support through a City and San José Redevelopment Agency partnership to ensure the completion of several initial projects.

These combined strategies – investments in high return activities, modest fee increases, judicious use of funding reserves, and staff reductions and reallocations – will help the Community & Economic Development CSA achieve its short- and long-term goals related to economic growth and vitality for the City of San José.

Neighborhood Services

The focus of the Neighborhood Services CSA is to build capable communities and support the quality of life that makes San José a desirable place to live. Primary partners include: Code Enforcement, the Library, the Strong Neighborhoods Initiative, General Services, and the Parks, Recreation & Neighborhood Services (PRNS) Department. Over the past few years, this CSA has been particularly vulnerable to difficult economic times. Budget reductions have been significant and the Neighborhood Services area has been consistently challenged to be more creative, more efficient, and more strategic in its approach to service delivery. This Adopted Budget strives to protect this CSA's core services and seeks to direct resources toward essential services that allow the City to sustain its commitment to San José neighborhoods.

Approximately 25 positions were added to PRNS in 2008-2009 to staff the expanded Mayfair and Roosevelt Community Centers which will open this year, other new neighborhood parks, and enhanced Animal Care Services revenue generation activities. In addition, 8 positions were permanently funded to continue support of the JTS Northside Community Center. To partially offset these additions, approximately 9.0 vacant positions and a filled .75 position in parks and recreation activities will be eliminated.

In the past, many PRNS programs have been offered for free or at a minimal cost. Given the continued budget challenges; the Department has re-evaluated this practice. In lieu of further service reductions, PRNS increased the fees charged on drop-in programs and Saturday Sports Leagues. An additional \$44,000 in new revenue is anticipated to be collected annually from the

2008–2009 ADOPTED BUDGET MESSAGE

City Service Areas (Cont'd.)

Neighborhood Services (Cont'd.)

aquatics program, facility rentals, adult sports, sports field reservations, and gym and fitness use. A scholarship program based on need will be available to ensure that all youth are served regardless of ability to pay. While this approach represents a move towards a new pricing philosophy, it is important to note that actions are taken in this budget to bring costs in line with the market rate. It should be noted that this method is common in other jurisdictions. Without the fee increases, additional budget reductions would have been required.

Another action in this Adopted Budget was to shift oversight responsibility for Animal Care and Services to the General Services Department. While Animal Care and Services will continue to be part of the Neighborhood Services CSA; the shift in oversight will facilitate a more manageable span of control within PRNS and allow greater focus on traditional parks and recreation activities.

Fee adjustments and funding shifts have proven to be a vital strategy for the CSA in minimizing impacts to core services. The City anticipates some additional Tobacco Settlement dollars in 2008-2009. As a result, this Adopted Budget includes a portion of the Level 2 After-School programs, consisting of integrated recreation, literacy, math enrichment programs, as well as the cost of two analyst positions, to be funded with Healthy Neighborhoods Venture Fund (HNVF) monies, resulting in a shift of \$742,000 in costs from the General Fund. In 2009-2010 HNMF funding previously slated for sites with Levels 1 and 3 After-School programs, both of which offer a homework assistance component, will be shifted to higher priority areas. In the approaching budget cycle, staff will work with participants, the Schools/City Collaborative, and other community-based organizations which provide homework assistance to mitigate any impact. The shift of HNMF funds from sites currently with Level 1 and Level 3 programming will result in an ongoing savings of \$756,000. This use is consistent with the goals of HNMF and, as such, considered an appropriate use of funds; it also avoids additional General Fund reductions in core services. Under this 2-year strategy, staff will work through the Schools/City Collaborative in 2008-2009 to identify strategies that maximize funding and mitigate possible impacts.

The Library Department is nearing completion of the projects named in the Branch Library Bond Measure approved in November 2000. Thirteen of these libraries projects have been completed, three are under construction, two are in the design phase, one has gone out for bid and the Southeast Branch is on the drawing board. With three new libraries opening in summer 2008 (Joyce Ellington, Pearl Avenue, and Willow Glen), the addition of 13.7 positions was included in the Adopted Budget.

The elimination of Sunday hours at six of the seven branch libraries was also approved for a savings of \$353,000 in 2008-2009 (the Tully Community Branch will continue offering Sunday hours of service through 2009-2010). When Sunday hours were added at these seven branches in 2005-2006, it was intended the branches would serve as regional gathering points since no other branch libraries provided Sunday service. An analysis of Sunday usage, however, reveals that the regional goal is not being achieved. Instead, on Sundays the patrons come primarily from the surrounding community. In searching for cost savings, the elimination of Sunday hours was chosen because it would have the least impact citywide and on children, who primarily use libraries during the week. As previously

2008–2009 ADOPTED BUDGET MESSAGE

City Service Areas (Cont'd.)

Neighborhood Services (Cont'd.)

mentioned, the Tully Community Branch, as well as the Martin Luther King Jr. Library will continue to provide Sunday service. With this action, all branch libraries will continue to be open Monday through Saturday for 47 hours each week.

The Regional HUD Office has determined that the Anti-Graffiti/Anti-Litter program will no longer qualify for CDBG funding in 2008-2009, due to the continuing nature of the work. In order to maintain existing service levels, the Anti-Graffiti program was approved to be funded through the General Fund, and the Integrated Waste Management and Storm Sewer Operating funds will be utilized to support the Anti-Litter program. It is anticipated that this change will create greater flexibility in allocating staff resources and improve the City's ability to respond in a timely manner to the increased volume of graffiti tagging that San José neighborhoods have recently experienced.

Another action approved in the 2008-2009 Adopted Operating Budget was the elimination of the Summer Work Experience Program starting in 2009. The City Council last year eliminated year-round services, leaving just the summer program. This program currently serves just 110 youth annually, at a cost of \$237,000. In addition, it requires resources beyond current staffing levels to maintain adequate supervision. This reduction will go into effect in the summer of 2009. However, PRNS will mitigate this impact by providing referrals to other youth employment agencies in the area. Though the Summer Work Experience program provides valuable opportunities for youth to develop marketable skills, it is not a traditional core service for a parks and recreation department.

Public Safety

Public Safety remains a top priority for San José residents as well as the City Council and the Administration. Police, Fire, the Office of Emergency Services, and the Independent Police Auditor have focused resources to achieve the best possible outcomes for safety, effectiveness, and efficiency. Increased demands from expanding service areas, a growing population, and budget reductions over time have increased the challenges of achieving these outcomes consistently. Even with these challenges, performance for major crime data improved through 2007-2008 with the exception of gang-related incidents and auto thefts. Additionally, both the Police and Fire departments' citywide response time performance improved.

Although San José continues to be a safe large city, the increase in homicides since the beginning of 2008 compared to the last several years has caused concern. The Adopted Budget adds 25 new sworn police officers to help meet priorities such as rising property crimes, community policing, and traffic calming as directed in the Mayor's March and June Budget Messages. Increasing San Jose Redevelopment Agency payments to the City for eligible capital projects will provide funding for 8 of the 25 police officer positions. The addition of these sworn positions will partially address the need for additional patrol and investigative services identified in the *Proposed Police Five-Year Staffing Plan: 2007-2012* presented to the City Council in November 2006. With the addition of these 25 positions, the Department will have added 40 officers in two years. Furthermore, the Mayor pledged to add 75 officers to the Police Department over the next three years for a total of 100 officers by 2012.

2008–2009 ADOPTED BUDGET MESSAGE

City Service Areas (Cont'd.)

Public Safety (Cont'd.)

Funding of \$350,000 has been allocated in the City-Wide Expenses section of this document for Service Delivery Optimization Studies. A portion of these funds is expected to be allocated to studies related to school based in-classroom programs and alternative crossing guard service delivery models. The first study would explore efficiencies for delivering programs in school classrooms (such as Challenges and Choices), and would be coordinated with other City departments that have school programs, including the Fire Department, Parks, Recreation and Neighborhood Services Department, and the Department of Transportation. The planned elimination of four filled Crime Prevention Specialist (CPS) positions in 2009-2010 will result in the elimination of the Challenges and Choices program, an 11-week violence awareness program for third, fifth and seventh grade students, which served over 3,000 students in 2006-2007. The delayed time frame will allow for the alternative service delivery models to be explored and potentially implemented to mitigate impacts.

Approved reductions in Police Investigative Services include the elimination of a Police Property Specialist position in the Property and Evidence Unit that was vacant since August 2007. This unit, which will retain a staffing complement of 19, is responsible for intake, handling, safeguarding and storage of over 188,000 cases of active evidence. As investigative staff resources continue to be outpaced by the growth in cases received, this reduction may contribute to a growing backlog of unprocessed evidence.

Further Police Department non-sworn administrative position eliminations were approved to help balance the 2008-2009 Adopted Budget. A Senior Office Specialist position in the Department's Research and Development Unit, vacant since January 2008, and the Secretary position supporting the Bureau of Administration Deputy Chief, vacant since November 2007, were eliminated in the Strategic Support area. New ways of doing business will be piloted in an effort to reduce impacts. Staffing reductions in Police Records may also will continue existing backlogs, despite gains made here during 2007-2008. To temporarily mitigate impacts, temporary staffing was approved for this unit through 2008-2009.

In the Fire Department, the Adopted Budget includes the continued implementation of a comprehensive Records Management System (RMS) through 2008-2009. The goal of RMS is to provide more efficient and effective reporting and analytical tools for fire and EMS incidents, training and certifications tracking, and target hazard management by reducing redundant data entry and improving accuracy and accessibility of data. Once RMS is fully implemented, better data management has the potential to reduce or capture the cost of EMS-related injuries, support increases in EMS first responder revenues, and identify Department changes that can reduce growing costs of operations and maintenance.

Responding to the Mayor's Budget Message to address the City's structural budget deficit while preserving essential services, the Fire Department intensified its analysis of staffing and apparatus deployments, including an assessment of absences, vacancies and overtime for line duty positions and relief staffing for the past four years. This analysis recommended possible adjustments in relief staffing levels to create cost efficiencies. In accordance with these findings, two relief Fire Captains were approved for elimination in this Adopted Budget. The Fire Department will continue to

2008–2009 ADOPTED BUDGET MESSAGE

City Service Areas (Cont'd.)

Public Safety (Cont'd.)

prepare annual overtime and relief staffing analysis and bring forward additional proposals for consideration as needed.

With the anticipated demolition and reconstruction of Station 2 beginning July 2008, the Department also will deploy an alternatively staffed resource from Station 34 to respond to low-priority EMS requests in the Station 2 service area. This configuration will increase the availability of Engine 2 to respond to emergencies that are more time-sensitive. Data and analysis from the Fire Department RMS will evaluate the effectiveness of this approach for use in future deployment planning.

The Adopted Budget will save \$368,000 annually with the elimination of the Hose Wagon at Fire Station 6, the only remaining hose wagon in the City. In its time, when apparatus carried only three-inch hose, the hose wagon performed a unique function by bringing the capacity of additional hose supply lines to extend water lines and bring more water to a large fire. However, with the addition of five-inch hose on all engine companies, this function has become outmoded, and all other hose wagons were phased out by the early 1990s. More recently, Hose Wagon 6 has been utilized to respond to non-emergency calls in the Station 6 area. However, these responses have continued to wane in the last three years, from a total of 104 in 2004-2005 to 70 in 2006-2007 (3.6% of the station's 1,931 calls). Of the 70 responses in 2006-2007, all were classified by the Fire Department as non-emergency; 35 were to EMS calls, 32 to calls categorized as "other," and three were to small non-threatening fires. Not included in these numbers are responses for the air unit. Since the Department now maintains two Air Units with twice the complement of air bottles, the Department would respond to calls for the Air Unit using other Department resources. The current independent response of Hose Wagon 6 with two firefighters to low-priority service request leaves Engine 6 with just three firefighters, diminishing its capability and potentially compromising crew safety. In keeping with Department's overall policy of maintaining four-person engine companies, keeping four firefighters on Engine 6 will ensure continuity of operations, robust capability, and citywide consistency. Under this approved hose wagon elimination, the three displaced Fire Engineer positions will be redeployed to fill Department vacancies due to anticipated retirements.

This Adopted Budget also eliminates two administrative positions in the Fire Department; reduces \$100,000 of overtime for discretionary activities such as committees, public outreach, and training; and reduces \$55,000 of non-personal/equipment.

Transportation and Aviation

As noted earlier, the telephone poll conducted as part of the new community budget prioritization process rated traffic congestion, street maintenance, and pothole repair as leading issues of public concern, and these issues also topped the 2007 Resident Survey. While the City's economic and fiscal problems have challenged the departments tasked with providing safe, secure, and efficient surface and air transportation systems, they continue to pursue a series of innovative and aggressive initiatives to advance San José's livability and economic vitality.

Maintenance of the surface transportation system – some 2,300 miles of streets – has been significantly underfunded, despite steady growth in infrastructure assets such as pavement, lighting,

2008–2009 ADOPTED BUDGET MESSAGE

City Service Areas (Cont'd.)

Transportation and Aviation (Cont'd.)

and landscaping. This has resulted in the City's estimated \$454 million one-time street infrastructure maintenance backlog and a \$29 million annual shortfall. Despite the need in this area, additional reductions were necessary to balance the budget and will have an impact on the condition of streets in the short and long term. The Adopted Budget, however, did add \$2.3 million for street surface resurfacing on Story Road and Leigh Avenue; \$650,000 for traffic calming studies and improvements; \$250,000 for pavement markers and system upgrades for tree permit issuance; and \$150,000 for traffic signs, roadway markings, and streetlight maintenance in one-time funds to address the most immediate infrastructure maintenance needs. A Sustainability Officer also was added to support the Green Vision's Smart Streetlights and tree planting initiatives and to develop more sustainable practices in transportation activities.

Approved budget reductions included the elimination of approximately one third of the Landscape Maintenance program that affected five filled and two vacant positions. This means that each of the remaining maintenance workers will be responsible for the care of 12 acres of landscape (in 2007-2008 they covered 8.3 acres), nearly five times more than the industry standard of 2.5 acres per worker as referenced in the Transportation Maintenance Master Plan (TMMP). Funding of five Pavement positions were shifted out of the General Fund and into the Traffic CIP, which will allow these positions to continue to seal, maintain, and repair the City's pavement. Although this will result in less funding available for actual pavement miles, the shift was necessary to deliver the pavement program and will also generate \$276,000 in General Fund savings. As approved by the City Council in its 2007-2008 Adopted Budget, the 2008-2009 Adopted Operating Budget eliminated the remaining elements of tree maintenance provided by the City. Over the last several years, tree maintenance services have been reduced, and responsibility for trimming shifted back to property owners, who have always been legally required to maintain them. With the elimination of these ten tree maintenance positions, emergency maintenance will become the responsibility of property owners starting in 2008-2009. Funding, however, was approved for contractual services to ensure that the most urgent tree emergencies can continue to be addressed in a timely manner is included. Property owners will receive a bill to reimburse the City for those services, except in hardship cases.

Following the City Council's November 2007 approval of the TMMP – which confirmed needs, community priorities, and funding alternatives – staff is focused on implementing the recommended strategies to address one-time and ongoing funding shortfalls. Exploration of a Landscape and Lighting District is one such strategy that is also included on the workplan for the Three-Year General Fund Structural Deficit Elimination Plan Team. Should the City Council approve further exploration of such an approach, staff would begin the multi-year process that could lead to additional funding for popular and important services, as well as to address some of the unmet and deferred infrastructure and maintenance needs included in the General Fund Structural Budget Deficit. Staff will also continue to pursue federal and State funding sources, and leverage those funds for the greatest possible improvement to transportation assets.

Engineering efforts that support the safety and efficiency of the traveling public have largely been left intact to reflect the priorities of the City and its residents. The Traffic Calming policy was

2008–2009 ADOPTED BUDGET MESSAGE

City Service Areas (Cont'd.)

Transportation and Aviation (Cont'd.)

updated and approved by City Council in June 2008. Policy modifications adopted by the City Council will be implemented in 2008-2009.

Over the past year the Airport has made remarkable progress with Phase 1 of the Terminal Area Improvement Program (TAIP), a comprehensive \$1.3 billion capital program that is replacing and upgrading terminals, roadways, and parking facilities. TAIP continues to be on budget and on schedule for completion in 2010; design has been completed in the past year, and construction is now underway throughout the Airport. The City successfully placed a \$725 million airport revenue bond issue in summer 2007 that provides the capital resources for the construction program. In addition, the Airport implemented its new Airline Signatory Agreement that represents a new business model of “shared use” for ticket counters and aircraft gates, which benefits both the Airport and its airline partners by enhancing the efficiency of facilities and operations and reducing costs. New agreements with rental car companies operating at the Airport also support the construction of a modern convenient rental car garage located adjacent to the new terminal, and a new concession program will result in restaurants and shops that provide higher quality services to passengers and reflect the unique character of San José and Silicon Valley. A new advertising concession agreement will contribute new revenues to the Airport in the coming years.

However, the aviation industry continues to face serious economic challenges that are affecting passenger traffic levels at airports across the nation. The combination of the national credit crisis and the steep increase in the cost of fuel in the past year has led to airline bankruptcies, major merger proposals, and reductions of flights and domestic capacity throughout the air transportation system. Locally, the Airport has seen its annual passenger traffic slip nearly one percent over the past year instead of the anticipated growth that had been projected to be around three percent. Although long-term projections indicate that air traffic will grow over the next decade, short-term industry uncertainties will contribute to local uncertainties for the Airport, and the Airport has adjusted its projections to reflect the current trends as it continues its efforts to bring additional air service to San José.

The Airport's 2008-2009 Adopted Operating Budget meets the fiscal requirements of the TAIP construction program, new economic realities, and the planned activation of new facilities starting in mid-2009. The impact of airline industry constraints and construction impacts have been recognized with a more conservative forecast of passenger traffic growth of 1%. Nine positions have been added to support pedestrian and traffic safety on Airport roadways, the start-up of the North Concourse, safety and security coordination with federal agencies, and greater environmental coordination. No service reductions are included in this budget. The airlines' cost per enplaned passenger (CPE) has been reduced to \$9.00 from the prior \$10.26, continuing the Airport's commitment to its partners to sustain the low-cost competitive advantage they have in San José. The airline rate stabilization reserve also has been replenished by more than \$4 million, which will help maintain the low CPE in the coming year in light of reduced traffic growth.

For both surface and air transportation systems, the 2008-2009 Adopted Budget reflects the City's continued commitment to conservative fiscal management by adjusting services and service levels as

2008–2009 ADOPTED BUDGET MESSAGE

City Service Areas (Cont'd.)

Transportation and Aviation (Cont'd.)

needed to match the availability of resources. Simultaneously, however, this CSA is also moving aggressively to pursue enhanced revenues as well as legislative and grant opportunities wherever practical that could provide additional funding for critical needs.

Environmental and Utility Services

The City's Green Vision, adopted in October 2007, will guide many critical efforts in the Environmental and Utility Services CSA. Several budget adjustments, including \$900,000 in Green Vision seed money in the General Fund, were approved to accelerate the achievement of the GreenVision Goals, as well as the Urban Environmental Accords Actions adopted by Council in November 2005. However, the City's commitment to the Green Vision is much broader, with another \$6.2 million in additional funding from a number of City funds (totaling \$7.1 million in all funds), for a variety of programs such as the Multi-family Dwelling Waste Diversion, Construction and Demolition Recycling, the "Zero Waste" Organic Materials Recovery program, an Environmental Sustainability Office in Transportation, the Green Retrofit and Green Street projects.

The City's large utilities, based in this CSA, have a national reputation for providing proactive and innovative environmental services. Largest among the water-related utilities is the San José/Santa Clara Water Pollution Control Plant which, coupled with the City's Sanitary Sewer System, protects public health and the environment by transporting wastewater from homes and commerce through 2,200 miles of pipelines, pump stations, and other facilities to the Plant for treatment and discharge. The Plant is more than 50 years old and in need of major repair and improvements estimated to cost a total of \$1 billion over the next 10 to 15 years – making this the second largest capital improvement project in the City's history. A total of \$250 million in critical infrastructure needs have been identified for completion within five years.

A Plant Master Plan effort began in 2007 to shape development the Plant. In the 2008-2009 Adopted CIP, the Water Pollution Control Capital Budget was approved to increase by \$35 million to continue addressing the infrastructure needs at the Plant. Significant projects in the five-year CIP include electrical system reliability (\$55.4 million), digester rehabilitation (\$43 million), and structural rehabilitation (\$47.4 million). One of the Master Plan goals is to become 100% energy self-sufficient in five years and carbon neutral in 20 years. The Plant consumes 70% of all the energy used in all of the City facilities and buildings combined. Therefore, the implementation of the Plant Master Plan will provide considerable progress toward achieving Green Vision Goal #3, to receive 100 percent of our electrical power from clean renewable resources.

Parts of San José's Sanitary Sewer System are also over 50 years old. A Sanitary Sewer Condition Assessment will be conducted in 2008-2009 to assess the physical condition of the system. The assessment will be used to develop a plan to minimize system blockages or failures, pavement failures, and to assist in reduction of grit loading to the Water Pollution Control Plant. In addition, \$700,000 was approved for specialized trucks for cleaning sanitary sewers to prevent neighborhood sewer back-ups.

2008–2009 ADOPTED BUDGET MESSAGE

City Service Areas (Cont'd.)

Environmental and Utility Services (Cont'd.)

The Storm Sewer System protects homes and commerce from flooding by diverting run-off flows into local waterways through another massive network of pipelines, pump stations, and outfalls. Major projects in the five-year Storm Sewer CIP include storm sewer system GIS mapping improvements (\$450,000) and continued storm pump station rehabilitations (\$500,000). An additional \$700,000 will fund replacement of three street sweepers.

The City's National Pollutant Discharge Elimination System Stormwater Permit is scheduled to be renewed in fall 2008, and significant funding increases will be required to implement the new permit requirements. Although specific program augmentations and staffing needs cannot be determined until the permit is issued, a reserve of \$2.9 million was approved to be established in the adopted Storm Sewer Operating Fund budget and appropriated when the permit is adopted.

To fund sewer-related capital improvements, equipment purchases, and a permit reserve, in November 2007 Council approved a conceptual residential rate increase strategy of 15% (averaging \$3.53 per customer per month) in both 2008-2009 and 2009-2010 for the Sewer Service and Use Charge Fund. Proposition 218 notifications were sent to all property owners in April 2007 to advise them of: 1) a three-year rate increase plan which would increase the Sewer Service and Use Charge Fee by 9% in 2007-2008 and up to 15% in 2008-2009 and 2009-2010; and, 2) a rate increase plan that would increase the Storm Sewer Service Fee by 9% in 2007-2008 and up to 30% (averaging \$1.35 per customer per month) in 2008-2009 and 2009-2010.

Another important initiative for 2008-2009 involves recycling and food composting efforts that will bring San José closer to becoming a Zero Waste City and achieving the Green Vision goal of diverting 100 % of waste from local landfills and converting waste to energy.

Recycle Plus, the City's solid waste utility, was approved to raise single-family (SFD) rates by 4.5%, (\$1.15 monthly/customer) to fund increased fuel costs related to the hauling contracts, and multi-family (MFD) rates by 8% (\$13.17 monthly/customer) to fund cost-of living increases. Property owners were advised on April 2007 of potential SFD and MFD rate increases of up to 10% in 2008-2009 and 2009-2010. The MFD rate increase will also fund an expanded recyclables and garbage collection contract with Green Team, which will allow the City to recover recyclables and food waste for composting – and will more than double the current MFD diversion rate of 35%. Funding of \$411,000 added two positions and contractual services to implement an Organics Resource Management program city-wide, and will help identify and develop biomass energy options, and another \$400,000 will provide more bins for the Neighborhood Clean-up Program, capturing more residential debris from do-it-yourself remodels.

The development and construction of the Las Plumas Eco-Park will support several Green Vision goals relating to waste diversion, energy and water conservation, and green buildings. In 2008-2009, approximately \$2 million of City funds will support the first phase of the facility development, which includes exterior site improvements and a Household Hazardous Waste (HHW) drop-off facility, scheduled to open in late 2008. The County will provide funding and staff all activities associated with the HHW program. The second phase of the Eco-Park is slated for development in late 2010.

2008–2009 ADOPTED BUDGET MESSAGE

City Service Areas (Cont'd.)

Environmental and Utility Services (Cont'd.)

Expansion of the Recycled Water System continues, supporting the Green Vision goal to recycle or beneficially reuse 100 percent of our water. In 2008-2009, the system will expand to existing and new developments in North San José, Happy Hollow Park and Zoo, and the former General Electric Plant. In addition, several customers in Milpitas will be retrofitted. A critical aspect of achieving this goal is to expand recycled water use by enhancing its quality. The City will also continue work with the Water District on design and construction of an Advanced Recycled Water Treatment Plant that will be able to treat 8 million gallons per day and reduce salinity. Another position was approved to support the development and implementation of the City's Water Conservation Program.

The cost of purchasing potable water from two local wholesalers, which are themselves addressing infrastructure issues, is driving the need for a rate increase of up to 8.8% (\$3.15 per customer per month) for all customers served by the San José Municipal Water System (SJMWS). SJMWS published a notice in the newspaper in late May 2008 in advance of City Council final approval of the budget. In addition, SJMWS also sent a direct mailing to all customers notifying them about the scheduled date for council consideration of the rate increase. Rate increases will provide \$1.9 million in additional revenue for 2008-2009.

Strategic Support

Budget, resource and staffing reductions in the past five years continue to have a cumulative effect on the Strategic Support CSA, further limiting each department's ability to deliver a wide variety of key services to both City employees and residents. Despite the need to cut and recalibrate the work we do, we still have significant programs to deliver with the funding that remains. We must continue to invest in these critical behind-the-scene functions to ensure that the organization is well-managed, trained, and developed, with the high morale, tools, and equipment necessary to deliver services to the community. As we strive for efficiencies and manage the work flow, we are still working through the cuts and changes while searching for new ways of doing business. Our success in managing through these changes rests on the shoulders of the Strategic Support CSA. The City's ability to achieve high performance levels in the face of these long-running reductions is a testament to the continued hard work and dedication of its employees. This Adopted Budget includes strategies to generate additional revenues, bring certain services into cost recovery where possible, as well as reduce expenses by consolidating services, shifting funding sources, eliminating vacancies and "contracting in."

Maintain a high performing workforce that is committed to exceeding customer expectations – One-third of the City's workforce will be eligible to retire within the next five years. To address this challenge, workforce planning and recruitment efforts are underway. Of the three temporary Human Resources positions that were added last fiscal year to assist with filling vacancies more quickly, one has been made permanent in this budget. This action helped the CSA meet budget reduction targets, while still supporting recruitment efforts. A Senior Analyst position was added to the Human Resources Department to focus on succession planning at the Water Pollution Control Plant due to the large number of retirements that will occur there within the next few years. The

2008–2009 ADOPTED BUDGET MESSAGE

City Service Areas (Cont'd.)

Strategic Support (Cont'd.)

lessons learned with this initiative will also be applied city-wide, where we face a similarly daunting number of potential retirements in the near-term.

Another workforce challenge centers on the costs of retirement health care which has been pushed to the forefront as a result of the Government Accounting Standards Board (GASB) statements 43 and 45. GASB 43/45 requires public sector employers to report their net present liability for future retiree benefits on an accrual basis versus pay-as-you-go. This budget includes ongoing funding of \$1.9 million (\$1.5 million in the General Fund) to begin to address this issue. While the City remains committed to engaging employees in meaningful discussions about this significant issue affecting our budget, staff also is looking for ways to improve operations and reduce costs. Consequently, this budget includes a \$399,000 allocation in 2008-2009 to fund a two-year pilot Wellness Program for plan participants beginning in 2008-2009 that will promote healthy lifestyles, prevent chronic health problems and decrease the use of health care services through disease management services, health risk assessments, wellness events, and classes. Over time, it is anticipated that this program would then lower total health-related costs and health insurance increases. To achieve these objectives, a temporary Analyst and Senior Medical Assistant were approved to be added and funded through the General Fund and Retirement Funds. The City's health care providers and Retirement Funds have agreed to reimburse the City for a significant portion of this program.

Safe and functional public infrastructure, facilities and equipment – Construction activity funded by the Capital Improvement Program (CIP) is still at its peak in 2008-2009 due to delivery requirements of Bond-funded projects in the Parks, Library, and Public Safety Bond Programs. A total of 269.91 positions in the Public Works Department will support CIP construction projects. However, as the *Decade of Investment* draws to a close with the expected completion of a significant portion of Bond and Airport Capital projects by 2009-2010, staff has begun an analysis of the city-wide impacts of this contraction in CIP staffing needs. Funding is included in this budget (\$200,000) for the Public Works Department to continue a major update of the City's Standard Specifications and Details for Construction Projects last revised in 1992. Through fewer contractor claims, better project bids, and alignment with the latest statutes, codes, regulations, and policies, this multi-year project which began in 2007-2008 is expected to save time and money for staff, contractors and consultants. The cost of this update is expected to be repaid to the General Fund via the Public Works Program Support Fund and the Public Works Fee Program over the course of the next six years.

As stated in the Management Partners Three-Year General Fund Structural Deficit Elimination Strategies report, the establishment of a rigorous asset management program could generate significant revenues to the City. Such a program could potentially span strategies such as property leases, civic facility reuse, surplus property sales, and public-private partnerships, and staff is currently reviewing options and potential steps toward an overall policy framework to support asset management decision-making. In order to seed this work, this budget includes the addition of \$100,000 toward development of a functional inventory of city-owned properties. This funding will enable staff to evaluate options for establishing a usable inventory through internal and/or private-sector based options, with the goal of improving the efficiency through which City properties can be

2008–2009 ADOPTED BUDGET MESSAGE

City Service Areas (Cont'd.)

Strategic Support (Cont'd.)

evaluated for alternative uses. Staff work on specific properties will also continue in parallel with the inventory effort, in order to pursue near-term opportunities for revenue generation.

General Services will be implementing several items in response to the need to meet new service demands, generate General Fund savings, maximize efficiency, and meet legislative requirements. At the direction of City Council, General Services assumed the full operation and maintenance of the Mexican Heritage Plaza for a 15-month period beginning April 1, 2008. During this period, the department will coordinate the facility's event programming, as well as ensure maintenance and repair activities are performed. To more efficiently manage fleet maintenance, several maintenance operations at other locations will be consolidated to the Central Service Yard. Fleet Management staff is also continuing to comply with state requirements to retrofit the City's on-road diesel-powered heavy duty vehicles with advanced emission control technology by 2011. In addition, this budget raises the rates for events at City Hall to be more consistent with market rates and achieve greater cost recovery, while also ensuring the facility remains accessible and affordable for the community. The rate increases are anticipated to generate an additional \$20,000 in General Fund revenue in 2008-2009.

Effective use of state-of-the-art technology – In support of the mission to enable service delivery to all customers, the City's Customer Contact Center was incorporated into the Information Technology Department during 2007-2008. Eleven permanent customer service representative positions were added, with an additional eight positions funded through 2007-2008. To further stabilize Customer Contact Center operations and help staff provide better customer service, two of the eight temporary positions have been extended through 2008-2009. In addition, the Information Technology Department continues to implement and explore areas of improvement. These include an on-line bill payment feature and development of alternative information systems such as web updates and direct call routing to haulers (for service related issues) that allow customers to get assistance without speaking to a call-taker.

With the dynamic nature and advancement of technology, information security has become a primary concern of government and businesses over the past several years. In 2007-2008, \$48,000 was used to improve security through the redesign of the firewall for the City's internet connection, and \$500,000 was appropriated to perform Information Security and Network Architecture audits. The Information Security Audit will provide a confidential assessment of the current environment, assess risk for critical exposures and vulnerabilities, and provide recommendations for improvement. The audit will be followed by an RFP for Network Architecture and funded by the remaining balance in this appropriation.

Sound fiscal management that facilitates meeting the needs of the community – Through a combination of technology funding and staffing and fee additions, the Business Tax Certificate program is undergoing significant improvements. The migration of the Business Tax Application from the VAX to the new Integrated Billing System is expected to be complete in December 2008 using \$1,900,000 appropriated in 2007-2008. In addition, this budget institutes a \$22 fee to recoup the \$1.4 million annual costs to process the Business Tax Certificate applications, and adds two date-

2008–2009 ADOPTED BUDGET MESSAGE

City Service Areas (Cont'd.)

Strategic Support (Cont'd.)

limited Investigator Collectors who will proactively identify and collect fees from delinquent businesses. It is anticipated that the City will receive a 2-to-1 return on the cost of these positions. Finally, a Sidewalk Lien Administrative Fee (\$45 per Sidewalk Lien Account application) was approved to bring the administration of this program into cost recovery. To remove a lien on their property for unreimbursed sidewalk repairs, residents will have to pay this fee in addition to the costs of the work performed by the City.

For Strategic Support, the adopted 2008-2009 budget is an overall reduction from 2007-2008. Strategic Support continues to remain vigilant and is researching new methods to deliver services in a more efficient manner while maintaining critical components of core services.

CAPITAL BUDGET OVERVIEW

The capital investments planned over the next five years are substantial with a 2008-2009 Adopted Capital Budget of \$1.2 billion and a 2009-2013 Adopted CIP of \$2.4 billion. This marks the eighth consecutive year that the annual budget exceeds \$1 billion and that the five-year plan is in the multi-billion dollar range. Based on the timing of investments and completion of projects, primarily related to Airport improvements and the Library, Public Safety, and Parks and Community Facilities Development General Obligation Bond projects, the 2008-2009 Adopted Capital Budget reflects a decrease of 40% from the 2007-2008 Adopted Capital Budget of \$2.0 billion and the 2009-2013 Adopted CIP is 23% lower than the 2008-2012 Adopted CIP of \$2.4 billion.

The City is now in the second half of the *Decade of Investment*, which is transforming much of the City's infrastructure. Major improvements continue in the City's parks, community centers, libraries, and public safety facilities, primarily as a result of voter-approved bond measures that will generate a total of \$599 million for these purposes. The expansion of the Airport will deliver a facility that meets the needs of both customers and the airlines in a cost effective manner. Substantial investments in the City's utility infrastructure are also underway, designed to ensure the continued safe and efficient operation of these facilities and the capacity to address future growth.

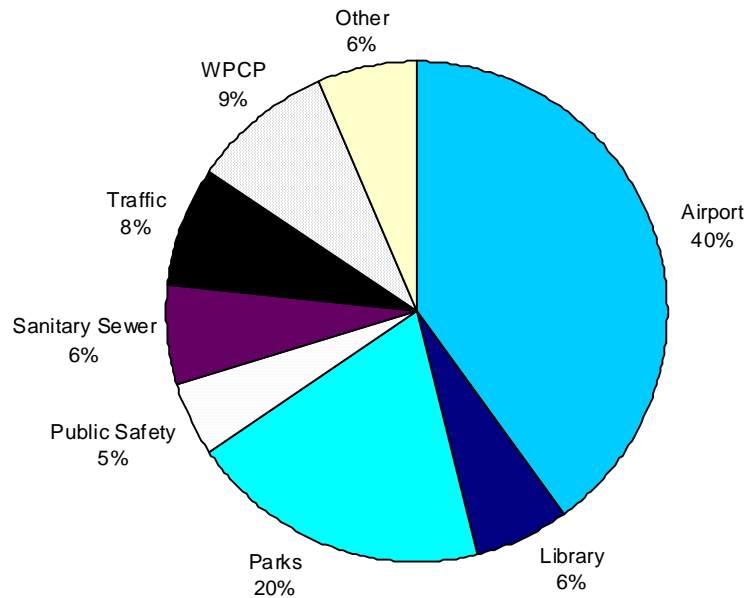
The City's ability to dedicate these levels of resources is due, in large part, to a number of specific, one-time funding sources that support specialized efforts. For instance, voter-approved bond revenues are earmarked for parks, library, and public safety purposes and the Airport expansion is primarily funded by the issuance of debt that will be supported by Airport revenues. The recent increase in materials and construction costs remains a significant concern. Nonetheless, the completion of these projects, as well as delivering on the commitments made through the passage of the voter-approved bond programs, will remain a top priority for capital project delivery through the upcoming year.

2008–2009 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET OVERVIEW (CONT'D.)

The CIP is composed of 14 capital programs. Following is a breakdown of the major programs:

2008-2009 Adopted Capital Budget



Green Building Implementation

As part of San José's Green Vision to position the City as a leader in sustainable design and set a community standard of environmental, economic, and social stewardship, this Adopted CIP includes major investments in City facilities to help achieve the goal of over 50 million square feet of green buildings throughout San José. The City Council adopted revisions to the City's Green Building Policy in March 2007 that require certain new building projects over 10,000 square feet (not previously budgeted in a CIP) to achieve a minimum Leadership in Energy and Environmental Design (LEED) certification level of Silver, out of a range which includes Certified, Silver, Gold and Platinum, the highest level designated by the United States Green Building Council (USGBC). In addition, the City Council set a higher USGBC LEED certification level of Gold or Platinum rating as the new goal. Specific projects that were in progress or allocated in a CIP prior to the Green Building Policy changes in March 2007 were individually evaluated and approved by the City Council for specific levels of green building certification and included as part of the 2008-2012 Adopted CIP. Notably, the Bascom and Seven Trees Community Centers and Libraries projects were approved to achieve a higher USGBC LEED Silver level of green building certification, when compared to the certification level previously targeted. Other projects in the "pipeline" were evaluated for the highest certification level achievable within the allocated funding for each project. The table below summarizes the projects included in the 2009-2013 Adopted CIP with the associated green building certification and funding level.

2008–2009 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET OVERVIEW (CONT'D.)

Green Building Implementation (Cont'd.)

Project	USGBC LEED
Bascom Community Center and Library	Silver
Roosevelt Community Center – Multi-Service	Silver
Seven Trees Community Center and Library	Silver
South San José Police Substation	Silver
Calabazas Branch Library*	Certified
Environmental Services Building Repair	Certified
Happy Hollow Park and Zoo Renovations	Certified
Mayfair Community Center – Satellite	Certified
North Concourse Building – Airport	Certified
Santa Teresa Branch Library	Certified
Terminal B (Terminal Area Improvement) – Airport	Certified
Belly-Freight Facility – Airport	Other**
Consolidated Rental Car Facility – Airport	Other**
East San José Carnegie Branch Library	Other**
Educational Park Branch Library	Other**
Fire Station 36	Other**
Household Hazardous Waste Las Plumas Facility	Other**
Public Parking Garage – Airport	Other**
Southeast Branch Library	Other**

* The Calabazas Branch Library scope changed from less than 10,000 square feet (best green building practices) to a 10,000 square foot facility due to the addition of a community room.

** “Other” includes projects pursuing best green building practices or projects where the achievable USGBC LEED level will be determined after finalization of the project scope and location.

Unmet Infrastructure/Maintenance Needs

As presented to the City Council on October 1, 2007 in the “Deferred Maintenance and Infrastructure Backlog Progress Report,” the economic environment presents significant challenges to sustain the existing maintenance service levels and maintain the overall condition of City infrastructure. This is primarily due to recent construction and expansion of new facilities, compounded by a gap in resources available to maintain the City’s existing infrastructure. This report identified a one-time backlog of approximately \$900 million across the City, for which over \$500 million was identified with the General Fund as the primary or partial funding source. Assuming this one-time backlog is met, an ongoing annual investment of \$40.2 million would be required from the General Fund to maintain the infrastructure. In addition to the outstanding items for which the General Fund would be the primary or partial funding source, significant needs remain for the City’s various Special Fund programs. For example, as part of an Infrastructure Condition Assessment prepared for the Environmental Services Department in February 2007, total capital infrastructure needs for the Water Pollution Control Plant totaled approximately \$1 billion. In this

2008–2009 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET OVERVIEW (CONT'D.)

Unmet Infrastructure/Maintenance Needs (Cont'd.)

Adopted CIP, a total of \$236.0 million is allocated toward construction projects in order to begin to address these infrastructure needs. Funding for a Plant Master Plan (\$7.7 million) is included in the five-year CIP which would provide the City with a phased program of recommended wastewater treatment facilities and management programs to accommodate planned growth and meet existing and future regulatory requirements.

Strategies to address the deferred maintenance backlog were discussed in a study session with the City Council on October 25, 2007. Continuing efforts to reduce the City's deferred maintenance backlog are currently being evaluated as part of the Three-Year General Fund Structural Deficit Elimination Plan. In an effort to begin to fund this backlog, one-time General Fund resources (\$5 million) were approved in the 2007-2008 Adopted Capital Budget. A continuation of this strategy, with additional one-time General Fund funding of \$5 million, was approved to fund high priority transportation, technology, and building facilities infrastructure deferred maintenance projects. Furthermore, additional analysis and recommendations developed from the Three-Year General Fund Structural Deficit Elimination Plan to fund the unmet/deferred maintenance infrastructure backlog will be brought forward for City Council consideration separate from this document.

General Fund Operating Budget Impact

In the last few years, strategies were implemented to defer or reduce operating and maintenance costs, with a particular focus on the General Fund. These efforts included deferring the completion date for capital projects, using alternative staffing models, reducing the size of some facilities, developing joint library and community center facilities, and installing capital improvements that would reduce costs, such as energy efficient traffic signals.

Considering cost saving measures taken to date and the continuing trend of rising construction costs, the Adopted CIP does not recommend significant additional project deferrals at this time. The program focus is to deliver on the commitments to the public by completing the park, library, and public safety projects that were approved by the voters and funded by General Obligation Bonds. Therefore, the additional costs associated with these facilities are being factored into the General Fund Five-Year Forecast. It should be noted, however, that the most recent Five-Year Forecast issued in February 2008 projects General Fund deficits in each of the next four years. The City will thus continue to face very tough choices to address these deficits, while planning to identify the additional funding necessary to operate the new facilities. The City will continue to analyze the overall complement of facilities and resources available to the public when determining future potential actions that may be necessary to balance the General Fund budget. In addition, in light of the San José Green Vision, staff will continue to explore further energy saving opportunities for new facilities scheduled to come online and potential investments in energy saving improvements at existing facilities.

2008-2009 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET OVERVIEW (CONT'D.)

General Fund Operating Budget Impact (Cont'd.)

As part of the Mayor's March Budget Message, the City Council approved a budget principle stating that capital improvement projects shall not proceed for projects with annual operating and maintenance costs exceeding \$100,000 in the General Fund without City Council certification that funding will be made available in the applicable year of the cost impact. Certification shall demonstrate that funding for the entire cost of the project, including operations and maintenance costs, will not require a decrease in existing basic neighborhood services. City staff continues to evaluate the implementation of this certification process and will bring forward recommendations for Council consideration. It should be noted that the majority of operations and maintenance costs included in the table below have been factored into the General Fund Five-Year Forecast.

As a result of the large number of new and expanded facilities coming online, resulting from the approval of the General Obligation Bonds, substantial additional General Fund operating and maintenance costs are projected through the five-year term represented in this Adopted CIP. For new parks facilities, the 2008-2009 Adopted Operating Budget includes funding of \$1.7 million and a one-time revenue loss of \$1.8 million related to the temporary closure of Happy Hollow Park and Zoo. This General Fund cost is partially offset by one-time savings of \$998,000 also related to the temporary zoo closure. Additional funding of \$861,000 is included in the 2008-2009 Adopted Operating Budget for new library facilities that are scheduled to be operational next year. The required level of investment is projected to increase significantly over the next five years as the remaining bond-funded parks, libraries, and public safety facilities open.

As detailed below, General Fund operating costs for facilities included in the 2009-2013 CIP will total \$3.9 million in 2009-2010 and increase to \$10.7 million by 2012-2013. (Operating budget adjustments for facilities scheduled to come online in 2008-2009 have been incorporated into the Adopted Operating Budget.)

Projected New General Fund Operating and Maintenance Costs

<u>Project Title</u>	<u>2009-2010</u>	<u>2010-2011</u>	<u>2011-2012</u>	<u>2012-2013</u>
Fire Facilities	\$ 30,000	\$ 335,000	\$ 1,338,000	\$ 1,398,000
Library Facilities	1,404,000	3,215,000	4,080,000	4,488,000
Parks Facilities	1,521,000	2,566,000	3,141,000	3,351,000
Parks Facilities-Other Agencies	192,000	201,000	219,000	228,000
Police Facilities	702,000	1,003,000	1,083,000	1,137,000
Traffic Projects	34,000	37,000	38,000	39,000
Traffic Projects-Other Agencies	22,000	22,000	23,000	24,000
Total	\$ 3,905,000	\$ 7,379,000	\$ 9,922,000	\$ 10,665,000

Staff will continue to pursue measures designed to reduce the operating and maintenance costs. In the Traffic CIP, for instance, investments are continuing to be made to ensure the most cost-effective traffic signals. Joint interdepartmental facilities will also continue to be pursued, where

2008–2009 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET OVERVIEW (CONT'D.)

General Fund Operating Budget Impact (Cont'd.)

feasible, in order to maximize integration and economies of scale. Energy efficiency improvements will also be explored in new and existing facilities.

Capital Program Overview by City Service Area

As a framework for its performance-based budget, each of the 14 capital programs has been aligned to one of the six CSAs. Following is a brief discussion of significant issues and projects included in the Adopted CIP, presented by CSA.

Community and Economic Development CSA

The Community and Economic Development CSA includes the Developer Assisted Projects Capital Program. This program reimburses residential developers for construction of major City streets and encourages the undergrounding of existing overhead utilities. Reimbursements to developers are scheduled, including reimbursements for the Communications Hill and the Dairy Hill projects.

In the underground utility program, projects are prioritized based on several criteria, the most significant of which is how much fee revenue has been collected within the Underground District.

The following projects are currently in construction or design:

- Guadalupe Gardens (bounded by Coleman Ave, Route 880, and Guadalupe River)
- Park/Naglee (Naglee to Shasta Avenues, Park to Bascom Avenues)
- Market/Almaden (Reed Street, Pierce Avenue, Williams Road, Balbach Street and Viola Avenue)
- Jackson/Taylor (4th Street to 9th Street)
- Stevens Creek Boulevard (Sterns Avenue to Calvert Drive)
- Camden Avenue (Bascom Avenue to Leigh Avenue)
- Evergreen Park (Yerba Buena Road to San Felipe Road)

Environmental and Utility Services CSA

The Environmental and Utility Services CSA includes the Sanitary Sewer System, Storm Sewer System, Water Pollution Control, and Water Utility Capital Programs.

Sanitary Sewer System Capital Program: The objectives of this capital program are to rehabilitate large diameter sanitary sewers; reduce water inflow and infiltration in sanitary sewers; improve local neighborhood sewers; extend sanitary sewers to new development areas; and develop a city-wide sanitary sewer master plan. Major projects in the Adopted CIP include the Edenvale Sanitary Sewer Supplement, 60-Inch Brick Interceptor, 30-Inch Old Bayshore Supplement, Cropley Avenue Sanitary Sewer, and Fourth Major Interceptor Phase IIB. In addition, several neighborhood sewer improvement projects are programmed, including Almaden Road, Foxworthy Avenue, Jacob Avenue, Morrill Avenue/Sierra Road, Naglee Avenue, Parkmoor/Meridian, Spreckles, University Avenue and Willow Glen.

2008–2009 ADOPTED BUDGET MESSAGE

Capital Program Overview by City Service Area (Cont'd.)

Environmental and Utility Services CSA (Cont'd.)

Storm Sewer System Capital Improvement Program: The purpose of the storm sewer system is to collect storm water and convey it to nearby creeks and rivers. In conjunction with the Sanitary Sewer System Capital Improvement Program, the Storm Sewer System CIP will remove cross-connections between the two systems. In accordance with the City's General Plan, the goal of the Storm Sewer System CIP is to reduce the risk of drainage-related surface damage and protect the quality of storm water runoff. The City is responsible for the design and construction of facilities for the conveyance of surface runoff in the City's Urban Service Area to adjacent stream channels. However, the City is not responsible for the design and construction of flood control facilities and the modification and maintenance of stream channels, which are under the purview of the Santa Clara Valley Water District and the U.S. Army Corps of Engineers.

In the Adopted CIP, a 30% rate increase in the Storm Sewer Service Charge was approved for 2008-2009 and a 20% increase in 2009-2010 is assumed to ensure adequate funding for projects that preserve the quality of storm water run off and necessary capital improvements in the City's storm water system. These increases, consistent with public rate notices sent in April 2007, would build in predictable, measured adjustments in service charges to continue a modest investment in the capital infrastructure and ensure the fiscal health of the Storm Sewer Operating and Capital Funds. Following is a brief summary of the limited number of projects possible in this CIP with the current rate structure: Albany-Kiely Storm Drainage Improvement, Phases III/IV and V; Chateau Drive Storm Drain Improvement, Phases II; Creek Channel Stabilization; Outfall Rehabilitation; Ross – Guadalupe Storm Drain Improvements; Storm Drainage Improvements – Special Corridors; and Storm Pump Station Rehabilitation and Replacements.

Water Pollution Control Capital Program: The San José/Santa Clara Water Pollution Control Plant (WPCP) is a regional wastewater treatment facility serving eight tributary sewage collection agencies, including municipalities and sanitary sewer districts. This CIP focuses on preserving the WPCP infrastructure and capacity improvement projects. In order to maintain the program represented in this document, a 15% increase for 2008-2009 was approved and another 15% rate increase in 2009-2010 is assumed. These increases, consistent with public rate notices sent in April 2007, will help improve Plant reliability and begin to address critical infrastructure needs identified by a recent infrastructure condition assessment study. Following is a brief summary of the major projects programmed in this CIP.

The Adopted CIP includes funding for major upgrades and replacements of electrical systems. \$57.2 million is programmed in the Adopted CIP and includes detailed electrical power distribution system analysis, increasing electrical power reliability by utilizing new technology, improved design, advanced monitoring, and increased automation.



Water Pollution Control Plant – Digester Tanks

2008–2009 ADOPTED BUDGET MESSAGE

Capital Program Overview by City Service Area (Cont'd.)

Environmental and Utility Services CSA (Cont'd.)

Water Utility System Capital Program: The San José Municipal Water System provides water utility service to approximately 26,000 customers in five areas within the City of San José: Evergreen, North San José, Alviso, Edenvale, and Coyote Valley. Projects approved in this CIP include the construction of new facilities, maintenance of existing infrastructure, and improvements to the Water Utility System facilities. Major projects in the Adopted CIP include: rehabilitation and replacement projects (Bon Bon Drive Main Replacement, Castleton Drive Main Replacement, and Peppermint Drive Main Replacement); System Development projects designed to provide more capacity or better coverage (Nortech Parkway East Loop Main and the North First Street Parallel Main); and recurring projects to maintain the system and address system growth (System Maintenance/Repairs, Infrastructure Improvements, Meter Installations and Service Installations).

Neighborhood Services CSA

The Neighborhood Services CSA includes the Library and Parks and Community Facilities Development Capital Programs.



Hillview Branch Library

Library Capital Program: The City's library system has been undergoing a major transformation as a result of the November 2000 voter-approved bond measure that approved the issuance of \$212 million in General Obligation bonds to improve the branch library system over a ten year period. This bond measure provided funding for the reconstruction or replacement of 14 of the 17 existing branches and the construction of six new branches in unserved neighborhoods. Major projects in the CIP and issues are discussed below. Over the course of the 2009-2013 Adopted CIP, the build-out

will be completed with the opening of two new branches and completion of five expansion/relocation projects. Listed below are the new and renovated branches that will be completed over this five-year period with the scheduled completion date noted.

New Branches

- Bascom (2nd Qtr. 2010)
- Southeast (TBD after site is determined)

Renovated Branches

- Calabazas (1st Qtr. 2011)
- Santa Teresa (2nd Qtr. 2009)
- East San José Carnegie (3rd Qtr. 2009)
- Seven Trees (1st Qtr. 2010)
- Educational Park (2nd Qtr. 2010)

Parks and Community Facilities Development Capital Program: The Parks and Community Facilities Development Capital Program plans for and implements the acquisition, development, and protection of parks, recreation facilities, and open space to maintain a high quality of life in San José. Under the direction of the Parks, Recreation and Neighborhood Services Department, the program provides oversight of the planning and development for approximately 3,500 acres of parks (regional/city-wide and neighborhood/community) and open space in the City's sphere of influence.

2008–2009 ADOPTED BUDGET MESSAGE

Capital Program Overview by City Service Area (Cont'd.)

Neighborhood Services CSA (Cont'd.)

In addition, the City has plans for implementation of a trails and greenways system that will provide a 100-mile network of hiking, biking, jogging, and equestrian trails along the Guadalupe River, Coyote and Los Gatos Creeks, Penitencia Creek, Saratoga/San Tomas Creek, and all major feeder streams.

The program is managed through the use of 17 funds, including 10 Council District funds, a City-Wide fund for city-wide/regional facilities, a Parks Bond Fund, and five special purpose funds, as well as contributions from the General Fund and the San José Redevelopment Agency. The City's Construction and Conveyance Tax revenue has historically been the primary source of support for this capital program. However, over the last few years, the Parks and Recreation Bond Projects Fund has provided a significant amount of resources to address capital needs in the City's various park facilities. On November 7, 2000, City voters approved Measure P, a \$228 million General Obligation Bond for parks and recreational facilities improvements. The 2009-2013 Adopted CIP includes \$61.5 million for the construction of Bond projects. Over the course of this five-year CIP, four community centers will be renovated or built, sports fields will be developed, Happy Hollow Park and Zoo will be renovated, and one City trail will be expanded. Funding for the Happy Hollow Park and Zoo Bridge and Parking Lot has also been placed in a reserve pending completion of updated cost estimates.

Listed below are the Parks Bond Projects in the Adopted CIP with the scheduled completion date noted:

- Bascom Community Center – Multi-Service (2nd Qtr. 2010)
- Coyote Creek Trail (Tully Road to Los Lagos Golf Course) (3rd Qtr. 2009)
- Happy Hollow Park and Zoo (3rd Qtr. 2009)
- Mayfair Community Center – Satellite (4th Qtr. 2008)
- Roosevelt Community Center – Multi-Service (4th Qtr. 2008)
- Seven Trees Community Center - Multi-Service (1st Qtr. 2010)
- Soccer Complex (TBD)
- Softball Complex (TBD)



Lake Cunningham Skate Park

The 2009-2013 Adopted CIP includes funding of \$77.4 million, which has been allocated to various projects and reserves. It should be noted that this fund has \$26.0 million of unallocated PDO/PIO funds. Staff is currently exploring options to allocate these funds within the five-year requirement as dictated in the San José Municipal Code.

Public Safety CSA

The objective of the Public Safety Capital Program is to provide, maintain, and improve facilities and equipment that support the delivery of effective emergency services to residents and visitors.

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Capital Program Overview by City Service Area (Cont'd.)

Public Safety CSA (Cont'd.)

The construction of a new police substation, a new public safety driver training center, two new fire stations, a renovated 9-1-1 communications dispatch center, and the remodel, rebuild, and relocation of several existing fire stations will provide the infrastructure to help meet this goal.

The major investment in Public Safety infrastructure included in this CIP is made possible because the voters in San José supported investments in these facilities. On March 5, 2002, 71.7% of voters approved Measure O, the “9-1-1, Fire, Police, Paramedic and Neighborhood Security Act” Neighborhood Security Act Bond Measure. This bond measure authorized the City to issue General Obligation Bonds in an amount not to exceed \$159 million to fund both Police and Fire Department capital improvements. All of the projects funded by the Neighborhood Security Act Bond are scheduled to be underway during this five-year period.

Following are the major projects in the Adopted CIP with the scheduled completion dates noted.

- South San José Police Substation (3rd Qtr. 2009)
- Driver Safety Training Center (4th Qtr. 2010)
- 9-1-1 Communications Dispatch Center (2nd Qtr. 2009)
- Fire Station 2 – Rebuild (Alum Rock Avenue) (4th Qtr. 2009)
- Relocate Fire Station 12 (Calero) (2nd Qtr. 2008)
- Relocate Fire Station 17 (Cambrian) (2nd Qtr. 2008)
- Relocate Fire Station 19 (Piedmont) (3rd Qtr. 2009)
- Relocate Fire Station 21 (White Road) (4th Qtr. 2011)
- Construct Fire Station 37 (Willow Glen) (3rd Qtr. 2011 – pending voter approval)
- Relocate Station 24/Construct Station 36 (Silver Creek/Yerba Buena) (1st Qtr. 2010)
- Fire Training Center (TBD)
- East Community Policing Center (TBD)



Fire Station 25 - Alviso

The CIP also includes funding from the Fire Construction and Conveyance Tax Fund and the General Fund to support many of the infrastructure needs in the Fire Department, including fire apparatus replacement and repair, facilities improvements, hose replacement, emergency response maps, handheld radios, heavy rescue airbags, traffic control equipment, general tools and equipment, computer replacement, records management, and data analysis.

Transportation and Aviation Services CSA

The Transportation and Aviation Services CSA includes the Airport, Parking, and Traffic Capital Programs.

Airport Capital Program: The Airport Capital Program’s vision statement is to *Provide the Best Service to its Customers, Community and Business Partners*. This Adopted CIP totals \$978 million and

2008–2009 ADOPTED BUDGET MESSAGE

Capital Program Overview by City Service Area (Cont'd.)

Transportation and Aviation Services CSA (Cont'd.)

includes investments based on the recent amendments to the Airport Master Plan approved by the City Council in June 2006. The CIP represents efforts that incorporated input from a variety of stakeholders in order to develop a facility that would meet community and customer needs while keeping costs low.

The \$564.9 million Terminal Area Development, Phase I is the largest project in the Adopted CIP. This project includes Terminal A improvements, the first half of Terminal B, the phased demolition of Terminal C, roadway improvements, and landscaping and signage. The Airport CIP includes several other major projects including the completion of the North Concourse, a consolidated rental car facility, and Taxiway W improvements.

Parking Capital Program: This program maintains and improves existing facilities, upgrades and replaces both on-street and off-street parking equipment, and develops parking facilities.

As part of the implementation of the San José Redevelopment Agency's (SJRA's) Strategy 2000 – Greater Downtown Strategy for Development, a Parking Management Plan (PMP) was developed in 2001 to address both short-term and long-term parking needs. Since its approval in 2001, the priority, need, and schedules of specific projects identified in the PMP have been significantly impacted by the downturn in the economy, as well as by changes in the supply and demand for parking. Downtown office vacancy rates were 13% in early 2008.

In June 2007, City Council approved an updated PMP, which included reprioritizing parking development sites; authorizing SJRA to pursue acquisition of the Greyhound site for future parking; modifying the Free Parking Program and validation program; enhancing security services in the parking garages; and establishing a separate fund for parking capital development. Major projects in the Parking Capital Program include minor parking facility improvements, garage elevator upgrades, and parking technology improvements.

Traffic Capital Program: The mission of the Traffic Capital Program is to implement a safe, efficient, and environmentally sensitive surface transportation system, consistent with the goals and policies of the City's General Plan. In the 2009-2013 Adopted Traffic CIP, \$308.5 million is allocated for the purposes of expanding and enhancing the transportation system. These resources are programmed to ensure that the transportation system supports the economic competitiveness of San José and provides residents with safe and attractive street facilities in their neighborhoods.

The investments approved as part of the 2009-2013 Adopted CIP include funding for the City's local system expansion (\$14.5 million); safety and efficiency projects (\$39.8 million); North San José projects (\$21.8



Street Surface Pavement Maintenance

2008–2009 ADOPTED BUDGET MESSAGE

Capital Program Overview by City Service Area (Cont'd.)

Transportation and Aviation Services CSA (Cont'd.)

million); support for the City's contribution to regional system expansion (\$14.3 million); maintenance and rehabilitation activities including bridge and pavement maintenance (\$101.9 million); activities that promote community livability including land management, weed abatement, the under-grounding of City utilities, and monitoring of environmental mitigation sites (\$8.9 million); local and regional planning and engineering activities (\$19.8 million); project and program support (\$13.2 million); and reserves and transfers (\$70.9 million).

Following is a discussion of some of the highlights of the Traffic CIP.

- ❑ **Local System Expansion Projects:** The Adopted CIP includes funding for the development of projects on the City's local street system. Key projects include development of grant funded pedestrian corridor projects from San José State University (SJSU) to Japantown, and on Jackson Street from the Japantown/Ayer light rail station to Japantown. Additionally, funding is allocated for bicycle facilities and curb ramp construction.
- ❑ **Regional System Expansion:** The Adopted CIP supports the expansion of the regional freeway and transit systems. It is anticipated that over \$5.0 billion in regional improvements will be constructed over the next ten years. Some of the expected regional transportation improvements include the BART extension to San José, the Route 280/880/Stevens Creek Upgrade, the Route 101/Tully Upgrade, and the Blossom Hill/Monterey Pedestrian Overcrossing.
- ❑ **Pavement Maintenance:** A combined total funding of \$139.9 million was approved in both the Operating and Capital Budgets over the next five years for pavement maintenance. The majority of these funds are anticipated to come from grant programs from State sources, such as Proposition 42 and Proposition 1B, as well as from the federal pavement maintenance grant program. It should be noted that State budget balancing actions may impact Proposition 42 funding (\$9.8 million annually). Any impact will be brought forward for Council consideration.

Strategic Support

The Strategic Support CSA includes the Communications, Municipal Improvements, and the Service Yards Capital Programs.

Communications Capital Program: The Communications Capital Program provides reliable, necessary public safety and non-public safety-related communications equipment for all City employees that require this equipment for their jobs. The Adopted CIP includes \$5.6 million was approved in this CIP for the equipment replacement and upgrade project, which entails replacing a large portion of the communications equipment, including radios and fixed point base station equipment, over the next five years. In addition, \$1.9 million is included in this CIP to develop a trunked radio system in which groups of users are given a logical talk-group to share for their communications, rather than a dedicated radio frequency. This project will maximize available capacity in order to increase public safety communication needs.

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Capital Program Overview by City Service Area (Cont'd.)

Strategic Support (Cont'd.)


Municipal Improvements Capital Program: The Municipal Improvements Capital Program provides capital improvements for City facilities that are not funded in other capital programs. The General Fund typically supports these projects. The 2009-2013 Adopted CIP includes the following ongoing allocations: HP Pavilion Repairs (\$1.0 million); Fuel Tank Monitoring (\$290,000); Closed Landfill Compliance (\$1.7 million); and Unanticipated/Emergency Maintenance (\$1.0 million).

Service Yards Capital Program: The objective of the Service Yards Capital Program is to maintain and improve the existing conditions at the Service Yards by implementing projects to reduce safety hazards, increase efficiencies, and provide necessary equipment and materials for operations. While ongoing funding is allocated to address general capital improvement needs, the majority of funding in this capital program is set aside for the payment of debt service on the Central Service Yard Phase I and II improvements.

CONCLUSION

The 2008–2009 Adopted Operating Budget successfully closed a \$29.6 million General Fund shortfall primarily with ongoing reductions, but also with the strategic use of reserves, one-time dollars, and with fee increases designed to maximize cost recovery in a number of areas. We believe the blend of solutions represented a sound approach to balancing the budget. In 2008-2009, over \$1 billion in the General Fund and \$2 billion in all operating funds will be available to continue providing the comprehensive mix of quality services that regularly elicits high satisfaction levels from our residents. While a number of positions have been eliminated, we have been able to strategically add positions to meet critical needs. We have established a fund to evaluate how best to optimize delivery of certain services as a structural deficit reduction strategy, and we have also set aside an initial ongoing payment toward the City's unfunded Retirement Health Care liability. Significant funding for the Green Vision initiatives is included and while the list of unmet needs in the area of infrastructure maintenance remains long, we have been able to set aside significant dollars to be used in addressing the substantial backlog that continues to grow. We have maintained our commitment to provide essential services, adding resources in the Public Safety CSA, and have maintained the City Council's commitment to neighborhoods. This plan maintains the sound financial discipline that has allowed us to manage through difficult financial times.

I want to express my appreciation to the City workforce, which continues to display such a high degree of professionalism and commitment even as we enter a seventh year of reductions that require our employees to do more with less. My appreciation also goes out to all of the dedicated City employees who have worked closely with the Administration as we moved through this budget process. In particular, I want to acknowledge and express my sincere appreciation to the many employees at all levels of the organization, but most especially the administrative staff in City departments as well as the entire Budget Office, who work countless hours and contribute so much to the preparation and production of this budget document.


Debra Figone
City Manager